



## **Doing Business in Japan: A Country Commercial Guide for U.S. Companies**

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## Chapter 1: Doing Business in Japan

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### Market Overview

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- **Key Economic Indicators**

Gross Domestic Product (GDP) in U.S. dollars:	4.3 trillion
GDP per capita in U.S. dollars:	33,653
Real GDP growth rate:	1.3%
Inflation:	-0.3%
Unemployment:	5.3

- **Trade Statistics**

In 2003, Japan's balance of trade continued to show a huge surplus, with exports of US\$448 billion far exceeding imports of US\$342.23 billion.

- **Principal Trading Partners**

In 2003, the top five exporters to Japan were China, the U.S., South Korea, Indonesia, and Australia. The top five importers from Japan were the U.S., China, Korea, Taiwan, and Hong Kong. The United States was thus Japan's biggest customer and second-largest supplier.

- **U.S. Market Share**

In 2003, the U.S. purchased 24.6% of Japan's exports and supplied 15.4% of its imports.

- **Political Situation / Issues Affecting Trade**

Japan is one of the world's most prosperous and stable democracies. It is also a staunch ally of the U.S. and a strong supporter of U.S. Administration policies. Therefore, there are at the moment no political issues that have a negative impact on U.S.-Japan trade relations.

### Market Challenges

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- **Barriers to Market Entry**

While tariffs are generally low, there are still some barriers that impede or delay the importation of foreign products into Japan. For more details, please refer to Chapter 5, [Trade Regulations and Standards](#), of this Guide.

- **Local Requirements**

For more details on local requirements with regard to import license requirements, restricted or prohibited imports, temporary entry of goods, certifications, and labeling requirements, please refer to Chapter 5, [Trade Regulations and Standards](#), of this Guide.

## Market Opportunities

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- **Best Prospect Sectors**

The best prospects for U.S. exporters in the Japanese market are in the following sectors: medical equipment, biotechnology, electronic components, computer software, pharmaceuticals, travel and tourism, aircraft and aircraft parts, new energy power generation, dietary supplements/health food, lifestyle market, soil remediation and engineering services, auto parts and accessories, education and training services, telecommunications equipment, and building products.

- **Major Projects**

The major public-works projects currently under way in Japan that present significant opportunities for U.S. companies are urban renewal in various cities, the Okinawa Graduate University, and Tokyo Haneda Airport expansion.

- **Business Opportunities**

There are excellent opportunities at the moment for U.S. companies in financial services, service industries in general, telecommunications, and power generation.

For more details, please refer to Chapter 4, [Leading Sectors for U.S. Export and Investment](#), of this Guide.

## Market Entry Strategy

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It is essential for U.S. companies that are serious about entering the Japanese market to hire a reputable, well-connected agent or distributor, and to cultivate business contacts through frequent personal visits. Japanese attach a high degree of importance to personal relationships, and these take time to establish and nurture. Patience and repeated follow-up are required to clinch a deal. Unless you possess excellent Japanese language skills, it is essential for foreign business executives to be accompanied by a professional interpreter, as many Japanese executives and decision-makers do not speak English. For more details, please refer to Chapter 8, [Business Travel](#), of this Guide.

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## Chapter 2: Political and Economic Environment

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### Summary

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Please refer to the State Department's *Background Notes* for Japan at <http://www.state.gov/r/pa/ei/bgn> and click on "Japan."

### Executive Summary

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Japan is a vibrant, prosperous country, with the world's second largest economy. Japanese consumers spend hundreds of billions of dollars on food, clothing, travel, entertainment and a wide variety of other consumer goods and services. The top Japanese firms are among the most efficient and best-run firms in the world. Unemployment, while high by historic Japanese standards, is around 4.5% — lower than in most developed countries. The average Japanese household has over \$100,000 in savings, and disposable income of \$4,100 per month. Japan is one of the largest overseas markets for U.S. exporters, with imports from the U.S. in excess of \$58 billion in 2003.

However, the prosperous Japan described in the preceding paragraph is not the Japan that most Americans have been reading or hearing about. Japan's recent economic malaise is well-known, although there are signs of improvement: a decade or more of slow or no growth; a banking system struggling to deal with a crushing bad loan problem; several years of deflation; soaring government debt; unprofitable and often uncompetitive domestic firms; and a political system seemingly incapable of taking the decisive action necessary to fix these problems. These problems are real, and they are serious. However, considerable reform has taken place, particularly at the corporate level, and Prime Minister Koizumi and his economic team continue to push for structural reform of the economy. In the meantime, the economy has recovered, although growth is not as strong as one would hope — real GDP growth for JFY 2003 (April 1, 2003 — March 31, 2004) was 1.9%, and estimates for JFY 2004 are in the range of 2.1%.

Structural reform of the economy is key for Japan to return to the path of strong growth. Of particular concern is the non-performing loan (NPL) problem. It is unclear how much bad debt there is in the banking sector — the Japanese Government's official estimate of the volume of NPLs is approximately \$229 billion, or just under 5.3% of GDP. We do not see a banking crisis on the horizon

— Japan has sufficient resources to clean up the bad-loans in its banking system without provoking a crisis. Other key concerns are de-regulation, and ending deflation. The government has taken steps to address all of these areas, but thorough-going reform will require difficult, painful measures.

The fact remains, however, that for most U.S. firms the prospects for structural reform in the Japanese economy are less important than the fact that Japan remains one of the largest overseas markets for U.S. goods and services. And in many ways, opportunities for competitive U.S. companies in the world's second largest economy are better than they have ever been. Japan's consumers buy American products ranging from music to furniture. Japanese consumers eat almost 60 percent of the cherries the U.S. sends overseas, and the over four million plus Japanese who visit the United States each year buy more than \$12 billion worth of plane tickets, hotel rooms, restaurant meals, souvenirs and other goods and services. Japanese firms are major purchasers of U.S. computers, machinery, medical devices, pharmaceuticals, chemicals and services. As the Japanese economy has weakened, Japanese consumers have become more willing to buy imported products and work for foreign firms; and Japanese firms have become more willing to accept foreign investment and cooperate with foreign partners. Market barriers have fallen across the board, and Japan has never been more open to foreign goods and services than it is today.

The contrast between the still serious macroeconomic situation that Japan faces and the significant opportunities that exist in the Japanese market for competitive U.S. firms is a theme that runs through this Country Commercial Guide. Contradictions abound. Although a well-known coterie of Japanese firms are world-class competitors, many Japanese firms are inefficient and uncompetitive in world markets. Japanese firms tend to have very poor margins, and few Japanese firms make an adequate return on their invested capital. Competition from fast-rising competitors — particularly China and Korea — is increasing. Government debt has been climbing steadily over the last decade, and now exceeds 145 percent of GDP. Local government debt, corporate debt and consumer debt are all high as well. But Japan also has fundamental strengths that are easily overlooked amidst the torrent of bad news. Japan has an enormous base of capital — physical, human and financial — that has been created over the past 50 years. Japanese society and its political system are stable. Japan has an industrious, educated population and a cadre of world-class manufacturers. Japan has a history of economic success in the face of daunting obstacles. And finally, Japan is rich.

U.S. firms will find excellent markets for their goods and services across a broad range of sectors. Financial services will continue to be a growth area as Japan works through its banking problems and attempts to make its capital markets more efficient. Firms in the energy business will find new opportunities as Japan deregulates its power generation market and studies the privatization of the national oil exploration company. Japan's population is aging, and there are growing opportunities in the "silver services" sector, services for the increasingly healthy, affluent seniors. Japan's government has an ambitious program to increase the use of information technologies throughout Japanese society, which will open up new opportunities for U.S. suppliers of IT equipment and services. Japan's consumers are rich, sophisticated and highly diverse in their interests

and tastes, and U.S. firms that can find a way to cater to those tastes and interests will find that the world's second largest consumer market can be very profitable. More information on these and other markets of opportunity can be found in Chapter 4, [Leading Sectors for U.S. Exports and Investment](#), of this Guide.

Optimism about the opportunities in this four trillion dollar economy must be tempered with realism. While Japan is more open to foreign goods and services today than it has ever been, Japan's reputation for protectionism, red tape, collusion and competitiveness is well deserved. This is still a difficult market. Although blatant protectionism has mostly disappeared — with the major exception of agriculture — the Japanese economy remains over-regulated, and those regulations can be used to hinder foreign firms' attempts to gain access to the market. Even when government red tape is not meant to hinder foreign firms, in areas such as transportation equipment or healthcare it often has that effect. Moreover, despite the government's active role in the economy, collusive practices among local firms are still widely tolerated — especially in more traditional industries such as construction, and the manufacture of basic materials such as steel, chemicals, paper and glass. Finally, straightforward business competition in Japan can be ruthlessly fierce. When faced with a new foreign competitor, Japanese firms will often use any tactic available — from severe price cutting to pressuring clients and customers — to keep the foreign competitor from succeeding.

The above-mentioned difficulties notwithstanding, the bottom line is that the size of the market opportunities in Japan dwarfs any other overseas market, and competitive U.S. companies should be here.

## **Major Trends and Outlook**

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Japan is the United States' largest non-NAFTA trading partner. It is also the world's second largest economy, with a GDP of roughly \$4.3 trillion in 2003. Measured in dollar terms and at current exchange rates, that is roughly 39 percent of the United States' GDP, although fluctuations in the dollar/yen rate can change this figure significantly. Measured on the same basis, Japan's annual output is almost equivalent to that of Germany and France combined. It is roughly three times the annual output of China, and eight times that of India. U.S. exports to Japan were roughly equal to U.S. exports to the United Kingdom and France combined, and nearly double U.S. exports to China, in 2003.

Although viewed as the first of Asia's economic miracles through most of the postwar era, Japan's economic growth was sluggish or negative over the last decade. Following the end of the "bubble economy" that centered on Tokyo property markets in the late 1980s, the Japanese economy entered an uneven and ongoing period of stop-and-go economic reform. The government took aggressive steps to strengthen ailing banks in 1998 and has made further efforts at financial restructuring under Prime Minister Koizumi. The Koizumi Administration has also sought to begin the process of fiscal consolidation given Japan's large stock of gross government debt, estimated by the OECD at 163.5% of GDP in 2004. The current economic recovery's strength has weakened and remains dependent upon continued strength in private consumption and exports.

The pressing need for Japanese firms to restructure and lower costs has been felt in terms of layoffs or reductions in salaries, wages, and bonuses. At the same time, however, the push to find more cost-effective ways of doing business has led to a reexamination of traditional *keiretsu* and other buyer-supplier relationships. Manufacturers have begun to look for ways to bring in high-quality, low-cost components and materials from foreign suppliers. Should such developments continue, overseas suppliers will see new opportunities in some areas of the Japanese market, although they will be challenged to supply products at competitive prices.

The ongoing process of financial and corporate restructuring also means that opportunities for foreign direct and portfolio investment are on the rise. With banks focused on consolidation and balance sheet improvement, Japanese firms are increasingly looking overseas for investment capital. Further, consolidation and reorganization throughout the Japanese corporate sector has led to a wave of asset sales—properties, plant and equipment, and subsidiary companies—as firms seek to spin-off poorly performing or non-core elements of their operations. Some of the most noteworthy foreign investment deals in recent years have occurred in the financial sector, where the failure of some institutions and the need to return nationalized assets to private hands led to a relaxation of long-standing barriers and negative attitudes toward foreign investment. Business tie-ups, joint ventures, and distribution affiliations between foreign and Japanese financial services providers have also accelerated as new opportunities arise as a result of financial deregulation. Improvements in land and labor mobility have also raised new possibilities for “green field” investment, although entry costs for some industries still remain high. Foreign direct investment into Japan fell to \$6.3 billion in 2003, down 32 percent from a year earlier, although indications are that FDI has rebounded in 2004. Japanese direct investment abroad fell 11 percent year-on-year to \$28.8 billion.

A key demographic trend with profound implications for Japan in years to come is the aging of its population. Because individual health care expenditures rise rapidly after the age of 60, the graying of Japan's population will lead to a substantial rise in spending on health care over the next three decades. By 2025, the Ministry of Health and Welfare predicts that more than one in four Japanese will be 65 or older (up from about one in seven now). As a result of this demographic shift, fewer workers will have to support more retirees, and productivity per worker will need to climb to maintain national output. This will have implications for the pattern of demand, with greater opportunities in health care and retirement industries.

<b>Appendix A</b>			
<b>DOMESTIC ECONOMY</b>			
	2001 (actual)	2002 (actual)	2003 (actual)
Gross Domestic Product (nominal; billions of U.S. dollars)	4,162.3	3,974.0	4,291.3
GDP growth rate (real; percent)	0.2	-0.3	1.3
GDP per capital (USD)	32,700.0	31,152.0	33,653.0
General government spending as a percentage of GDP (nominal)	36.7	37.1	36.6
Inflation (CPI; percent)	-0.7	-0.9	-0.3
Unemployment rate (percent)	5.0	5.4	5.3
Average \$ / ¥ exchange rate (used in this table)	121.53	125.31	115.93

<b>Appendix B</b>			
<b>TRADE</b>			
<i>(Billions of U.S. Dollars)</i>	2001 (actual)	2002 (actual)	2003 (actual)
Total country exports	383.31	394.86	447.98
Total country imports	313.14	301.22	342.23
U.S. exports	63.12	57.75	58.87
U.S. imports	121.05	118.69	115.69
Average \$ / ¥ exchange rate (used in this table)	121.53	125.31	115.93

### Balance-of-Payments Situation

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Japan's trade and current account surpluses are the largest in the world. Japan's trade surplus continued to rise in 2003, to \$105.75 billion, according to U.S. Embassy calculations based on official yen-based data. The current account surplus also increased 15.2 percent in 2003 over the previous year, to \$136 billion.

### Principal Growth Sectors

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Following the U.S.-Japan Framework Agreement of 1993, new opportunities developed for U.S. companies to sell to Japanese Government entities, especially in the fields of computer hardware and software, telecommunications, medical equipment, pharmaceuticals and construction services. In recent years, the Japanese Government has taken several measures to increase access for foreign suppliers to the government procurement market. They voluntarily expanded the number of agencies and lowered the threshold procurement amount covered under WTO rules. In addition, they revised the following procurement activities so that they now: (1) hold annual seminars to provide anticipated procurement information; (2) provide more transparency through public announcements; (3) provide advance notice of single tendering procedures; (4) provide separate announcements for procurement under the WTO; (5) provide an on-line system for Internet access to all GOJ procurement announcements; (6) use the overall-greatest-value evaluation method for telecommunications and medical technology products over 800,000 SDR's; and (7) use complaint review procedures. A wide range of construction projects is now open to competitive bidding. Construction



tenders are regularly announced in the industry newspapers *Kensetsu Kogyo Shimbun* and *Kensetsu Tsushin Shimbun*. Under the WTO Agreement, to which Japan is a signatory, 47 prefectures and 12 government-designated cities have begun to improve opportunities for motivated U.S. companies to sell to Japanese local governments.

Japan is the world's second largest market for information technology equipment and services (telecommunications, computers, peripherals, software, and multimedia). Fueling the current strong demand for telecommunications infrastructure is the Japanese government's goal to connect all Japanese businesses, government offices, schools, and homes by 2010, combined with the e-Japan program initiated by former Prime Minister Mori that aims to make Japan a leader in information technologies by 2005. Current investment in telecommunications infrastructure is \$40 billion annually. Japan's recent exponential growth in the market demand for networking, for IP/broadband-based communications, Internet applications, wireless communications (3G, wireless LAN, etc), and satellite communications is expected to continue for the next decade.

Surveys have shown that Japanese houses are two to three times more expensive than equivalent American houses, and many Japanese people are not satisfied with either the quality or price of their current housing stock. In contrast, imported American-style homes are regarded as offering high quality, low cost, and earthquake resistance. Hundreds of U.S. companies in building materials, manufactured housing and home building industries are already working with Japanese companies to build American-style 2x4 platform frame construction homes in Japan.

Over the next several years, a multitude of new opportunities should be seen in regional markets outside Tokyo as price-pressured key buyers show increased receptivity to foreign-supplied goods in leisure, as the Japanese worker finds more time and money to spend off the job; in retirement communities and health care with the "graying" of Japanese society, as well as in meeting the needs of the handicapped; and in changing and broadening consumer tastes, as the Japanese consumer has become more cosmopolitan with greater exposure to foreign products. Pressure to reduce Japan's large fiscal deficit will inevitably have some impact on infrastructure spending, particularly in such traditional priorities as roads and airports. However, new areas such as information technology infrastructure and a continued shortage of housing will still provide opportunities for foreign suppliers. In the final analysis, even an economically sluggish Japan remains a prime market that should not be ignored or neglected. Major regional opportunities are described below.

## **Agricultural Products Market**

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Japanese **agricultural production** is steadily contracting on a year-by-year basis, with key sectors seeing decreasing production in most years. Cereals, rice, dairy, beef and pork, and fruits and vegetables are all sharing this decline to greater or lesser degrees. Efficiency is hampered by the small and scattered nature of farmlands and by inordinately high input costs. Increasingly strict environmental regulations also limit any economies of scale for Japanese agriculture. The government and the farm cooperatives still have a powerful influence over farmers' decisions regarding production, pricing and marketing. In an attempt to differentiate their products, some producers are raising organic products aimed at Japanese consumers who have concerns about the use of agricultural chemicals.

While the Japanese food market is open to a vast number of U.S. agricultural products, market access problems for a range of products remain a concern for U.S. producers and exporters. Due to persistent negotiations in the WTO by the United States and others throughout much of the 1980's and 1990's, Japan has eliminated many of the agricultural market access barriers for which it was once famous. Where earlier quotas and outright bans restricted the market for U.S. beef, citrus, fruit juice, cherries, apples and ice cream, all of these markets have now been opened. However, access issues still hamper farm trade due to high tariffs on processed food products, restrictive plant quarantine measures on fruits and vegetables, trade-limiting quotas, complicated labeling practices, strict inspection requirements on imported goods and time-consuming approval processes for products of biotechnology.

The combination of the improved market access and declining domestic production resulted in excellent export growth for American agriculture through most of the 1990's, making Japan our top overseas export market. About 20 percent of all U.S. agricultural, forestry and fishery products exports, valued at \$12 billion, are destined for Japan. While exports have suffered a setback since 1997 due to Japan's on-going recession, tough third-country competition and food safety concerns, long-term prospects are excellent for the following reasons: (1) growing consumer demand for value plays to U.S. strengths (U.S. foods typically cost less than local products); (2) Japanese agriculture continues to decline, leading to increased dependence on imports for stable food supplies; and (3) continued westernization of the Japanese diet away from fish and rice toward meats, dairy products and other American staples. Export stars include beef, pork, ice cream, broccoli, asparagus, frozen vegetables, wine, cherries, and processed snack foods. For additional information about U.S. agricultural, food, fishery product exports to Japan and other countries, please see the Foreign Agricultural Service Homepage at <http://www.fas.usda.gov/>.

## Japan's Leading Economic Regions

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The population of metropolitan **Tokyo** and the neighboring prefectures of Kanagawa, Saitama, and Chiba exceeds 31 million, equivalent to the New York and Los Angeles metropolitan areas combined. Tokyo is the governmental, business, higher education, information, media, fashion, and cultural center of Japan. Most major Japanese companies, trade associations, and foreign companies have their headquarters or major branches in Tokyo. A presence in Japan usually means a presence in Tokyo. Despite the high cost of residential and commercial office space, most U.S. companies establish a presence in Tokyo because of the need to interface with their Japanese customers, obtain market information and, in many cases, to maintain relations with Japanese government ministries. Consumers in Tokyo are more likely to come into contact with foreign products, food and styles than elsewhere in Japan, and consumer trends and fashion often originate in Tokyo.

**Kansai** is the historical name given to the nine-prefecture region of western-central Japan, consisting of Osaka, Hyogo, Kyoto, Shiga, Nara, Wakayama, Mie, Fukui, and Tokushima (note: these last three prefectures are also "claimed" by other regions). The Kansai region has a richly varied topography and covers an area with a radius of approximately 150 km (95 miles). While occupying only 10% of Japan's total land area, the Kansai has a population of some 24 million people (19% of Japan's total), mainly concentrated in the cities of Osaka, Kobe, Kyoto and Nara. As the traditional commercial center of Japan, Kansai is an economic giant with a Gross Regional Product

(GRP) equivalent to that of a G7 country: In FY 2001, Kansai's GRP was larger than the GDP of either Canada or Mexico at 926 trillion yen (US\$765 billion@ 2001 rate of US\$1=121 yen).

The Kansai region is Japan's second-largest industrial, financial, commercial and population center after the Tokyo area (Kanto). It is the birthplace of the country's trading companies, home to several of the world's largest banks, the world's sixth-largest stock exchange, and scores of the world's largest corporations.

Kansai offers many advantages to American companies looking to enter the Japanese market. Lower prices than Tokyo provide an incentive for firms to conduct business in the Kansai area — the average office rental price in 2004 was approximately 30% less than Tokyo's and the initial deposit can be less than a third; labor and housing costs are also much lower than Tokyo's. Nevertheless, Osaka is the fourth most expensive city in the world, down from its ranking as second last year — according to a well-known survey; Tokyo is the first. The region affords superb transportation, communication and other infrastructure support. In addition, there is a progressive environment with a pragmatic, non-bureaucratic business orientation and the willingness to innovate. Kansai is the home of tens of thousands of important Japanese companies and the center of Japan's textile and apparel, sporting goods, electronic component, pharmaceutical and chemical industries.

Eighty-two Japanese corporations were listed in "The Fortune Global 500" (July 26, 2004), of which 17 were Kansai-based companies. In addition to being the headquarters of such large companies as Sumitomo, Matsushita, Sanyo, and Sharp, the region is also a center of medium and small enterprises, which provide employment to 92 percent of the local work force. Many of Japan's foremost trading companies started in Osaka, a city with a population of over 2.6 million (8.8 million in Osaka Prefecture, 7% of Japan's total population). The highly competitive and entrepreneurial Osaka business community is always willing to try new ideas. For example, Japanese instant noodles, *karaoke*, business hotels, automatic vending machines and underground shopping malls all made their debut in the Kansai before being adopted in other parts of Japan, making Kansai a great point of entry. Consumers in the Kansai have a reputation for being particularly choosy and demanding, so that many companies, including Procter and Gamble, consider the area to be a great place to do product testing and market acceptability studies.

Although the numbers are down over the last several years, Kansai local governments (Hyogo and Osaka Prefectures and the cities of Kobe and Osaka in particular) still have public works projects planned that amount to several hundred billion dollars. As in previous years these consist of massive land reclamation and improvement, complexes for commercial use, industrial and research facilities, and waterworks and waterfront projects (e.g., Kansai International Airport, Kansai Science City, the Ashiyagawa Island Development Project, the Asia and Pacific Trade Center and the North Hankyu Rail Urban Redevelopment Project). In March 2001 Universal Studios Japan, a \$1.8 billion theme park, opened on a 56-hectare site in Osaka's Konohana waterfront area. The construction of another man-made island designated as a second runway and terminal facilities for the Kansai International Airport (KIX) is nearing completion. A new domestic airport for the city of Kobe, on reclaimed land, is also in progress and is scheduled to open in February 2006. In 2001, international conferences held in Kansai accounted for 31.3% of the total of such conferences held in Japan, and Kansai hopes to prosper as

one of the country's major convention centers. In addition, the cities of Osaka and Kobe, plus Hyogo Prefecture, have been aggressively marketing the merits of investing in the region. Incubation facilities, such as Imedio (Incubator for Multimedia Industry Osaka), the Business Innovation Center Osaka, Kyoto Research Park (KRP), and the Kobe Industrial Promotion Center, offer office space as well as consultation services for new businesses. While not available until recently, such business incubator space, tax breaks for new businesses, and other economic development incentives are now increasingly commonplace.

Kansai also has great strengths in the biotechnology field with a concentration of pharmaceutical, chemical, textile, and precision machinery companies that have diversified into the bio-genome industry. Along with these private companies are many national, prefectural and university-affiliated research laboratories, creating a community of researchers, academics and businesspersons. With more than 1,000 private research institutions in the Kansai, as well as an accumulation of university research institutions, Kansai is a hub for research and development in Japan. This works to promote technology transfer and exchange of technical information as well as to support the establishment of venture companies resulting from their research.

Over one-third of foreign affiliates operating in Kansai are in the manufacturing sector, including chemicals and pharmaceuticals, general machinery and electrical machinery, while the rest are engaged in non-manufacturing areas such as the wholesaling of machinery, chemicals, and consumer goods, as well as the information technology and service sectors. There are close to 100 companies in the region affiliated with US companies. One of the most significant recent trends has been the rapid expansion of U.S. companies in the retail sector with store openings for CostCo, Office Depot, Ace Hardware, Tiffany's and Chelsea Premium Outlets over the past several years. The Starbucks and Seattle's Best coffee house chains have also been expanding apace.

Because of its geographical and traditional proximity to the Asian continent, trade with Asia is particularly large in the Kansai region. As seen in the data for 2004, the ratio of Asian trade in both Kansai's exports and imports is relatively high compared to the figures for Japan as a whole. The Osaka Customs Office, which covers Toyama, Ishikawa, Shiga, Kyoto, Nara, Osaka, and Wakayama Prefectures, reports US\$117.5 billion (US\$1=108 yen) in exports and US\$86.2 billion in imports in 2004. These figures represent 13.5% and 11.3% increases, respectively, over 2003. Although trade with Asia declined after the Asian economic crisis in 1998, it has once again picked up. More than 55% of both Kansai's exports and imports are within Asia. Exports to the U.S. were 16% percent of the total, while imports from the US represented 10% of all imports and a value of US\$8.3 billion.

Commercial Service Osaka-Kobe aggressively promotes and advocates for American companies, especially in public works projects, sporting goods, apparel, textile, housing, as well as medical, biotechnology, environmental, and high-tech industries. Working closely with the American Chamber of Commerce in Japan (ACCJ) and other regional multipliers, CS Osaka helps promote American products, services and tourism through a number of ways and means such as targeted events, U.S. Pavilions at trade fairs, market research on emerging commercial opportunities, business counseling, networking, partnership searches, key introductions, and advocacy. For more information visit our CS Japan website at <http://www.buyusa.gov/japan/en>.

Strategically located midway between the Tokyo and Osaka metropolitan areas, the **Chubu Region** of Japan consists of nine prefectures, Aichi, Ishikawa, Fukui, Gifu, Mie, Nagano, Shizuoka, Toyama, and Yamanashi, clustered together in the center of Honshu, Japan's largest island (though some of these prefectures are also claimed by other regions, as noted above). Taken together, these nine prefectures have a total population of 21 million, making Chubu the third most populous region in the country. Most of the region's population and industry is concentrated along the Pacific coast, in an area known as the Tokai Region (Aichi, Gifu, Shizuoka, and Mie Prefectures).

Chubu is the manufacturing heartland of Japan and an export powerhouse. Supported by well-developed infrastructure and advanced manufacturing technology, the region is home to world-class Japanese manufacturers Toyota Motor Corporation, Daido Steel, Brother Industries, Makita, Denso Corporation, Yamazaki Mazak, INAX, Suzuki Motor, Yamaha, Noritake, NGK Insulators, and many others. The region as a whole accounts for roughly 17 percent of Japan's GNP and roughly half of Japan's total trade surplus with the United States.

The political, economic, and transportation center of the region is the City of Nagoya and surrounding Aichi Prefecture. Aichi ranks first among all Japanese prefectures in terms of the monetary value of its product shipments. Nagoya is one of Japan's premier industrial and technological centers as well as a huge market in its own right. Despite being a major economic center, the city is well known for its high quality of life and competitive business costs. Housing costs and office rents are substantially below those found in Tokyo or Osaka. The city government and the Nagoya Chamber of Commerce and Industry have been actively promoting foreign direct investment in the region. Dana Japan, Cabot Microelectronics, TRW Steering Systems, Pfizer Pharmaceuticals, and PPG Industries are but a few of the many American firms that have set up manufacturing or distribution bases in and around Aichi. American chains Kinko's, Toys' R Us, Starbucks, and The Sports Authority have also opened outlets in the area.

The Nagoya Station neighborhood symbolizes urban development in the region. The JR Central Tower opened above the station in March 2000. This multi-million dollar project, which includes a 780-room Marriott hotel, has redefined Nagoya's skyline and injected cosmopolitan style into the city's hospitality and retail industries. In 2007, Toyota Motor Corporation plans to move many of its headquarters' functions to a planned skyscraper across the street from this complex.

The Chubu Region is home to a number of major projects that offer opportunities for cost-competitive U.S. firms. The \$5.9 billion Central Japan International Airport (known as "Centrair") is a 24-hour airport built on a man-made island in Ise Bay. American architectural design, construction, and airport equipment firms won tenders on crucial areas such as the construction of the passenger terminal building and supply of the airport's information and communication network system. Centrair opened on February 17, 2005 prior to the start of Aichi EXPO 2005, a six-month environmental world's fair that is expected to attract 15 million visitors. Other major projects include construction of segments of the \$32 billion Second Tomei-Meishin Expressway, a new six-lane freeway that will connect Tokyo and Kobe through Nagoya.

Through its close relationship with Chubu public and private sector entities, the Commercial Service in Nagoya works to uncover commercial opportunities for U.S. firms in a variety of sectors. CS Nagoya believes that particularly good prospects exist for U.S.

firms in architectural design and construction services, intelligent transportation systems (ITS), environmental remediation, automotive parts and recycling technologies, and general aviation services.

The **Kyushu/Yamaguchi** Region of southwestern Japan consists of seven prefectures on Kyushu Island (Fukuoka, Oita, Saga, Nagasaki, Kumamoto, Miyazaki, Kagoshima) and Yamaguchi prefecture on the southern tip of Honshu, with a combined population of over 15 million. The region's \$410 billion economy constitutes Japan's fourth largest economic center, representing about 10 percent of national GDP — larger than that of Australia and almost equal that of South Korea. This region is traditionally known as Japan's gateway to Asia and enjoys extensive historical, cultural, and trade ties with continental Asia, particularly South Korea, Taiwan and mainland China. The United States remains an important trading partner, but trade with Asia is predominant and Kyushu is becoming increasingly integrated into the East Asian regional economy.

Kyushu boasts an economic growth rate above the national average, and its dynamism stems from a diversified economy that includes many high-tech industries. Dubbed Japan's "Silicon Island", Kyushu accounts for 30% of Japan's total production of semiconductors. Northern Kyushu also boasts nearly 10% of Japan's automobile output, with Toyota, Nissan, and Daihatsu operating state-of-the-art components manufacturing and final assembly facilities. As a leading center for research, Kyushu hosts numerous R&D facilities in such diverse fields as consumer electronics, biotechnology, nuclear fusion, robotics, ceramic materials and high-speed ocean transport carriers. The southern prefecture of Kagoshima is home to Japan's two space launch facilities at Uchinoura and Tanegashima. Other important industries include steel manufacturing, shipbuilding, tourism, commercial fishing, and agriculture.

With a population of 1.3 million, Fukuoka City is the economic, educational, and cultural center of Kyushu. While manufacturing is prevalent in Fukuoka prefecture's surrounding areas, the city's economy is services-based, with many large retail outlets and regional headquarters offices for banking, insurance, and real estate. Living expenses (including housing) and office rents are lower than in Japan's other large metropolitan areas. The city enjoys excellent transportation infrastructure, including Kyushu's principal international airport, high-speed ferry service to South Korea, and the southern terminus for Japan's *shinkansen* (bullet train) network. Asia Week Magazine selected Fukuoka as "the most livable city in Asia" in 1997, 1999 and 2000.

The Economic/Commercial Section of the U.S. Consulate in Fukuoka has been actively assisting U.S. businesses and promoting their interests in the region for over 40 years. The Consulate believes many sectors of the Kyushu/Yamaguchi economy offer promising opportunities. With its long history of openness to foreign influences, the Fukuoka area has an established reputation as a useful test market for new consumer products, services, and retail concepts before they are expanded to wider areas of Japan. Familiar U.S. retail names (Toys 'R' Us, Costco, Starbucks, AMC Theaters, and The Gap, just to name a few) have an active market presence. Major American companies have established research and production facilities in electronics, computers, and medical devices, and are also active in architecture, design and construction, energy, insurance and finance. In recent years U.S.-based investment funds have made major acquisitions of hotels and related leisure facilities in Kyushu. Another sector of growing interest is environmental products and services. In particular, KitaKyushu City in Fukuoka prefecture, a historical center of heavy industry, is seeking to become a

regional leader in environmental remediation and recycling. Good export prospects exist in many other sectors, including building materials, medical equipment, and health care products.

**Northern Japan** — Hokkaido and Tohoku — has a population of 15.5 million and a GRP of approximately \$417 billion. Hokkaido, located roughly 500 miles north of Tokyo, is Japan's northernmost island. Sapporo, Hokkaido's capital and largest city, has a population of 1.9 million. The Tohoku region consists of six prefectures in northern Honshu, Japan's main island. Commercial Service Sapporo covers four of these prefectures: Aomori, Akita, Iwate, and Miyagi (in addition to Hokkaido). Sendai, Tohoku's economic and commercial center and the capital of Miyagi, has a population of 1.0 million.

The region is Japan's agricultural heartland, with dairy production and farming in Hokkaido and highly prized rice growing regions in Akita and Miyagi. With a GRP of \$180 billion, Hokkaido supplies 11.7 percent of Japan's agricultural products, including 42 percent of its milk, 50 percent of its onions, 77 percent of its potatoes, and 100 percent of its sugar beet production (3.8 million tons). In addition, the region provides 31 percent of Japan's fish catch.

In 2003, northern Japan's direct imports from the United States amounted to approximately \$1.7 billion. More than an additional \$1.0 billion in U.S. imports to northern Japan also entered Japan through Tokyo, Yokohama and Osaka before being transshipped to their final destination in the north. These transshipment costs — and high transportation costs in Japan, in general — can add significantly to the costs of shipping products from the United States to seaports and airports in northern Japan. As a result, container traffic from the United States is increasing at the ports in Ishikari and Tomakomai (both convenient to Sapporo) and Hachinohe (in the Aomori Prefecture) and Sendai, as a way to reduce transportation costs. In addition, increasing numbers of U.S. containers are arriving in northern Japan through the port of Pusan, South Korea (which has a special docking agreement with the port of Ishikari) as Pusan's port and cargo handling charges are much lower than in those in Tokyo, Yokohama and Osaka. As for rail links, the Governor of Hokkaido announced in the fall of 2004 that the *shinkansen* (bullet train) will be extended to Sapporo. The local business community expects that this development will produce major beneficial economic effects.

Northern Japan's two main international airports — Chitose (Sapporo) and Sendai — have good passenger and cargo handling capacities and are eager to develop more international routes. Growing economic ties with the Russian Far East and the prospect of future development in Russia's oil and gas sector have led to regular commercial flights between Hokkaido and Sakhalin. The number of tourists from Australia has also shown a tremendous growth in recent years which, beginning in 2004, has led to seasonal direct flights between Cairns and Sapporo.

Northern Japan's well-developed infrastructure, highly skilled workers, and relatively low real estate costs, combined with city and regional government investment incentives, have prompted many U.S. companies to view Hokkaido and Tohoku as attractive locations for investment and overseas operations. Amazon Japan (amazon.com's Japanese subsidiary), for example, selected Sapporo over other cities in Japan for the Call Service Center it established in 2001. LaSalle Investment, another U.S. company, is building an outlet mall in Chitose to open in 2005. Other U.S. investment firms have bought hotels and office buildings during the past couple of years and, as real estate prices began to rise in 2004, more firms are showing interest in purchasing properties in northern Japan. As for export opportunities, home building products and interiors, packaged homes, pharmaceuticals, medical equipment, and marine products continue to be particularly promising sectors in northern Japan.



**Okinawa Prefecture**, population 1.35 million, is a part of the Ryukyu Islands, a chain of islands stretching southwestward from the Japanese island of Kyushu to Taiwan. Naha City, the prefectural capital, is within two hours by air of Tokyo, Taipei, Seoul, Shanghai and Manila. Okinawa's economy depends heavily on construction, tourism, government public investment, and services.

One large-scale public investment project in the works is the establishment of the "Okinawa Institute of Science and Technology," a project that is hoped will play a major role in the economic and social development of Okinawa in the 21<sup>st</sup> century. The national government has increased the project budget 1.8 times over the previous year from 2.9 billion yen (29 million in US\$) in FY2004 to 5.1 billion yen (51 million in US\$) for FY2005. Contracting for on-campus design work should begin soon; American companies are expected to be competitive with their on and off campus and research facility design expertise.

The plan to build a new airport on the nearby island of Ishigaki has been approved by the central government and budgeted for construction in FY2005. Moreover, the Japan-U.S. joint Committee recently agreed to relocate the U.S. Naval Hospital Okinawa, which is the largest overseas hospital in the U.S. Navy. The design on this project will begin soon, with construct slated to begin in 2006. This project will bring business opportunities to U.S. firms, not only in terms of design, but also in terms of medical equipment and supply procurements.

As indicated earlier, tourism is the one of the largest industries in Okinawa. The number of tourists visiting Okinawa has grown steadily. In 2004, 5.15 million people visited the island. For 2005, the Okinawa Prefectural Government is aiming at 5.40 million visitors. As evidenced by the January 1, 2005 opening of "DFS Galleria Okinawa", the world's second largest DFS outlet, Okinawa offers U.S. firms' potential business opportunities in the design of first class resort hotels, hotel operations and marine sports, out door equipment and related services. In addition, the continuing development of Okinawa as a retirement community may also offer attractive business opportunities. About 23,000 Mainland Japanese move to Okinawa each year to take the advantage of the warm climate, beautiful beaches, great food and friendly people.

Okinawa Prefecture is aggressively promoting policies to encourage the introduction of foreign capital. For example, Okinawa has established the first and so far only Special Free Trade Zone in all of Japan. Various tax incentives apply to, not only the Special Free Trade Zone, but the Information and Communications Industry Promotion Zone, Special Information and Communications Industry Zone and Financial Businesses Promotion Zone as well. These incentives include exemptions on the payment of national and local taxes. There are other incentives only available in Okinawa, including subsidies to promote the employment of Okinawa youth and support measures to reduce domestic and overseas communication costs.

## **Government Role in the Economy**

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Traditionally, the bureaucracy — created in 1868 — has played a leading role in the Japanese economy. The ministries' power was drawn from the thousands of required licenses, permits and approvals that tightly regulated business activity in Japan and by informal, but in practice virtually compulsory, edicts called "administrative guidance."



The reach of the bureaucracy has been further extended by a plethora of organizations that perform semi-regulatory functions. Business in Japan has maintained very close relations with the bureaucracy and politicians—a set of relationships commonly referred to as the "iron triangle." Japanese ruling party politicians have depended on contributions by business. Major companies and industry associations also provided lucrative *amakudari* ("descent from heaven") employment for high-level bureaucrats retiring from government service. Bureaucratic paternalism blocked new companies from entering the market and pushed up prices. Members of the Japanese National Diet (parliament) have small staffs and traditionally have relied on bureaucrats for policy initiatives and the drafting of legislation.

The role of government institutions in the economy has been changing over the last several years as Tokyo pursues administrative reform and deregulation. On January 6, 2001, the bureaucracy was reorganized from 22 ministries and agencies to 13. A Cabinet Office was established and located above the other ministries on government organization charts to serve as a think tank for politicians and to coordinate policies among the other ministries. At the same time, the number of politicians posted to senior positions in the ministries was increased from an average of two or three to five, to try to increase the administration's control over the bureaucracy. The reorganization — together with changes to political contribution laws, stricter guidelines on the use of administrative guidance, and increased criticism of "descent from heaven" (*amakudari*) employment practices — is slowly eroding the strength of the "iron triangle" (close relations among business leaders, the bureaucracy and the politicians), and weakening the bureaucracy's influence over the economy.

Until 1980, the Japanese Government controlled access to the market by allocating foreign exchange and by conditioning foreign investment approvals on technology transfer to Japanese companies. These controls are largely gone, but the Japanese Government continues to play a significant role in promoting certain favored industries. Many bureaucrats believe that the proper role of a national government is to lead industry into higher value-added manufacturing. While nods have been made in the direction of improving the average citizen's standard of living, GOJ policy and regulatory framework continue to favor domestic producers over consumers. This can sometimes translate into a "protective attitude" when it comes to foreign competition and new products from the outside.

When Japan's asset "bubble" burst in 1991 and the economy worsened, businesses strengthened their call for deregulation of the economy in order to stimulate growth and to respond to foreign competition. At the same time, companies began to move production off shore in order to cut costs. This prompted fears of a "hollowing-out" of Japanese industry. In areas where deregulation effectively took place, such as consumer goods and distribution, markets experienced explosive growth and imports reached previously unheard of highs. However, in areas like industrial goods, deregulation efforts have been less visible.

In general, it is increasingly possible for foreign companies to participate in the Japanese market. The Japanese Government has removed most legal restrictions on exports and foreign investment in Japan. The U.S. and Japanese governments continue to work on removing anti-competitive and exclusionary business practices and resolving market access problems through bilateral dialogue. Under the Economic Partnership for Growth, launched by President Bush and Prime Minister Koizumi in June 2001, the U.S. and

Japanese governments have worked to cut regulations in sectors of key economic importance where U.S. firms are globally competitive — telecommunications, medical equipment and pharmaceuticals, energy (including power generation and transmission equipment), information technology, insurance, and financial services. Prime Minister Koizumi is taking new approaches to restructuring Japan's economy. For example, his administration's initiative to create Special Zones for Structural Reform (SZSR) is an attempt to revitalize Japan's regional economies through locally-led regulatory and structural reform. The new Industrial Revitalization Corporation of Japan, established in May 2003 aims to accelerate non-performing loan workouts by helping viable debtor companies restructure and return to profitability.

While Japan's business system is different from the United States, American companies can successfully adapt. The 1,000 company, 3,200 member American Chamber of Commerce in Japan (ACCJ) is the largest overseas AmCham in the world, and its 40-plus committees and sub-committees are highly visible lobbyists for U.S. business interests. U.S. Embassy officers are liaison to over 20 of these committees, and work closely with the ACCJ on market access and investment issues. Some knotty regulatory barriers and discrimination still exist, and when a company cannot solve such problems by itself or through its legal advisers in Japan, the U.S. Government stands ready to help.

## Infrastructure

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Japan has a fully developed physical infrastructure of roads, highways, railroads, airports, harbors, warehouses and telecommunications for distribution of all types of goods and services. Japan is also engaged in a large, though slightly reduced, expansion of public works projects both to enhance the business infrastructure and to help stimulate the economy. However, urban roads and highways remain inadequate, overcrowded, and toll roads are expensive. In addition, Japan's airports, among the world's most expensive, contribute to the high cost of doing business. Japan's port practices are generally opaque and inefficient by global standards; and import processing, while improving, remains relatively slow. Japan has recently made progress, reducing Customs overtime fees by fifty percent and extending hours of operation at major air and seaports to make them 24/7 facilities. More reforms, however, are needed if Japan is to once again become internationally competitive.

## Web Resources

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### General

U.S. State Department <i>Background Notes</i>	<a href="http://www.state.gov/r/pa/ei/bgn">http://www.state.gov/r/pa/ei/bgn</a>
Foreign Agricultural Service	<a href="http://www.fas.usda.gov/">http://www.fas.usda.gov/</a>
Commercial Service Japan	<a href="http://www.buyusa.gov/japan/en">http://www.buyusa.gov/japan/en</a>
Ministry of Economy, Trade and Industry	<a href="http://www.meti.go.jp/english/">http://www.meti.go.jp/english/</a>

## **Kansai (Osaka-Kobe)**

Kansai Economic Federation (Kankeiren)  
<http://www.kankeiren.or.jp/English/index.htm>

Osaka Chamber of Commerce & Industry <http://www.osaka.cci.or.jp/e/>

U.S. Commercial Service Osaka-Kobe [osaka-kobe.office.box@mail.doc.gov](mailto:osaka-kobe.office.box@mail.doc.gov)

## **Chubu (Nagoya)**

Chubu Economic Federation <http://www.chukeiren.or.jp/english/index2.html>

U.S. Commercial Service Nagoya [nagoya.office.box@mail.doc.gov](mailto:nagoya.office.box@mail.doc.gov)

## **Hokkaido/Sapporo**

Hokkaido Development Bureau <http://www.hkd.mlit.go.jp/eng/index.html>

Sapporo Chamber of  
Commerce & Industry <http://www.sapporo-cci.or.jp/worldbusiness/>

U.S. Commercial Service Sapporo [misa.shimizu@mail.doc.gov](mailto:misa.shimizu@mail.doc.gov)

## **Kyushu**

Kyushu-Yamaguchi Economic Federation (Kyukeyren)  
<http://www.kyukeyren.or.jp/english/index.html>

Fukuoka Chamber of Commerce and Industry <http://www.fukunet.or.jp/>

Fukuoka Foreign Trade Association <http://www.fukuoka-fta.or.jp/>

U.S. Consulate Fukuoka  
Yoshihiro Yamamoto, Commercial Specialist [yoshihiro.yamamoto@mail.doc.gov](mailto:yoshihiro.yamamoto@mail.doc.gov)

## **Okinawa**

Let's Do Business in Okinawa <http://www.okinawa-ric.or.jp/kaigai/eng/index.html>

Okinawa Free Trade Zone <http://www.pref.okinawa.jp/zone/>

U.S. Consulate General Naha  
Akinori Hayashi, Commercial Assistant [hayashi@state.gov](mailto:hayashi@state.gov)

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U.S. exporters seeking general export information/assistance or country-specific commercial information should consult with their nearest **Export Assistance Center** or the **U.S. Department of Commerce's Trade Information Center** at **(800) USA-TRADE**, or go to the following website: <http://www.export.gov>.

To the best of our knowledge, the information contained in this report is accurate as of the date published. However, **The Department of Commerce** does not take responsibility for actions readers may take based on the information contained herein. Readers should always conduct their own due diligence before entering into business ventures or other commercial arrangements. **The Department of Commerce** can assist companies in these endeavors.

## Chapter 3: Selling U.S. Products and Services

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### Using an Agent or Distributor

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Establishing a direct presence in Japan is the best way to penetrate the Japanese market, but can be a prohibitively expensive strategy to launch. The use of agents/distributors is a more realistic marketing strategy for a small or medium-sized U.S. firm, but this approach requires great care in the selection of the representative.

Distributors in Japan usually cover a specific territory or industry. Import agents are often appointed as sole agents for the entire country (although there is no statutory requirement that this be done). In some cases exclusivity may be necessary to ensure a strong commitment by the Japanese agent towards expanding sales. But under no circumstances should a U.S. company be pressured into handing over control of the whole market if there is doubt as to the ability or willingness of the Japanese company to develop the entire market. Regional exclusivity, a limited term of representation, minimum sales, or qualitative indicators of sales efforts are good strategies as a safeguard in exclusive agency contracts.

While the Japanese Fair Trade Commission has guidelines applicable to exclusive agency contracts, there are no statutory damages required upon termination of an agency contract. Given the close-knit nature of business circles and the traditional wariness towards foreign suppliers, replacing a Japanese agent or distributor could cause reputation problems if not handled in an extremely sensitive manner. The U.S. company may be viewed as lacking adequate commitment to Japanese business relationships. Japanese agents may request "parting compensation" in the event the foreign exporter decides to dissolve a business relationship. It's a common practice domestically, so U.S. companies should address the eventuality with a potential agent/distributor prior to executing a contract.

A common mistake made by many U.S. firms is to try to use a list of importers as a basis for "cold calls" on prospective agents. The Japanese prefer to do business with someone only when they have been properly introduced and have met face-to-face. To help dispel reluctance on the Japanese side, an introduction by a "go-between" typically serves to vouch for the reliability of both parties. Appropriate third parties for such introductions include other Japanese

firms, U.S. companies that have successfully done business in Japan, banks, trade associations, chambers of commerce, the U.S. Department of Commerce and the U.S. Commercial Service in Japan. U.S. state representative offices in Japan, JETRO, or even Japanese government ministries can also offer assistance.

U.S. companies should be selective in choosing a Japanese business partner. Credit checks, a review of the Japanese company's industry standing and existing relations with Japanese competitors, and trust-building are all part of the process. A company should conduct the same due diligence that it would do if it were partnering with another U.S. firm.

Part of the difficulty in choosing a Japanese agent is assuring that the agent will devote sufficient attention to expanding the market share of the U.S. product. A U.S. company should probably avoid a distributor that targets only limited, high-price niches; is compromised by strong ties to one particular industry group ("keiretsu"); fails to compete directly with established Japanese products; or is not prepared to pursue volume sales for the U.S. exporter. Also, companies should be wary of distributors that co-handle competitors lines, or products that are complimentary in nature and could present conflicts of interest for the distributor.

To attract a Japanese business partner, a U.S. exporter must present an image of dependability, innovation, superior quality, competitiveness, and a commitment to building personal relationships. A U.S. company should show that it is well regarded in its industry; that it has researched the market; that it is prepared to respond to cultural requirements (e.g., by preparing high-quality marketing materials in Japanese on the company and its products/services); and that it responds promptly to all inquiries from Japan. Frequent communication by fax, email or phone is crucial. Regular visits to Japan are a must, as are offers to host new partners on reverse trips to U.S. headquarters to view manufacturing and operations.

## **Establishing an Office**

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Although still very costly, establishing a presence and an office in Japan has become a less expensive undertaking given the recent decrease in the cost of labor, office rent, and other expenses.

A U.S. company that wishes to collect information and/or improve communication with business contacts in Japan may wish to establish a representative office. A liaison office can obtain market data and other information and provide necessary promotional and service support. A representative office is not subject to Japanese taxes and it is not necessary to obtain special approval to be established. However, a representative office must not involve itself in commercial transactions or generate income, and therefore cannot handle commercial orders directly. The liaison office may provide guidance and support to an agent and manage all marketing activities except for the actual sale.

A branch office of a U.S. company can engage in trading, manufacturing, retailing, services, or other business. A branch office may take and fill orders and carry out a full marketing program, including arranging for advertising, recruiting a sales force and performing all necessary promotional activities. A branch is liable for payment of Japanese taxes. The branch must appoint a resident representative in Japan and must register with the Legal Affairs Bureau of the Ministry of Justice. In addition, the establishment of a branch office is considered a direct investment under the Foreign Exchange and Foreign Trade Control Law requiring reporting to the Ministry of Finance through the Bank of Japan within 15 days after the establishment of the branch office. Prior notification is required when the investment involves types of industries which could endanger Japan's national security, or disrupt the country's law and order, and also which might adversely and seriously affect the smooth performance of the Japanese economy. Industry sectors which may be affected include aircraft manufacturing, arms, nuclear energy

and related industries, narcotics and vaccine manufacturing, agriculture, forestry, fisheries, oil, and leather product manufacturing.

An alternative to a branch office is a wholly owned corporation. Prior notification is required when the investment involves the industry sectors listed in the previous paragraph. Setting up a wholly-owned subsidiary will involve more time and expense, but it can offer an effective means to guarantee better protection for proprietary information, obtain credit and penetrate markets which have subtle but substantial barriers to imports.

A fourth approach is to pool resources of several firms having complementary product lines. Such a group might establish a marketing association, consortium, or jointly owned export management company, and set up a sales and service branch or subsidiary office in Japan. The financial crunch affecting many Japanese companies now provides U.S. companies with excellent opportunities to establish or acquire businesses in Japan.

U.S. companies should also carefully examine the Japanese Ministry of Economy, Trade & Industry's (METI) programs for promoting imports and foreign investment into Japan. Programs include loans available through the Japan Bank for International Cooperation and the Development Bank of Japan. Entry-level business support programs are provided by the Japan External Trade Organization (JETRO) as well as some municipal and prefectural governments. Current information on investing in Japan, establishing an office, and other JETRO programs for foreign businesses can be found on JETRO's website at [http://www.jetro.go.jp/en/invest/setting\\_up/section1.html](http://www.jetro.go.jp/en/invest/setting_up/section1.html).

## **Franchising**

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With over 1,000 chains, Japan's franchise industry is the second largest in the world in total sales, and the number of outlets exceeds 220,000. Approximately 40 percent of total sales at franchise outlets are from convenience stores, and about 21 percent from food service chains.

American franchising heavily influenced the development of Japan's franchise industry in the 1980s and many successful U.S. chains entered the market during this period. Although Japanese consumers are generally receptive to American franchise concepts, products and services must be localized to ensure success in Japan. U.S. franchisers are more often successful by seeking either a master franchisee or joint venture partner to develop the market in Japan.

Identifying the right business partner in Japan requires time and effort, and because of the current economic slowdown in Japan, it is increasingly difficult to find companies that are willing to invest in master franchise rights.

## **Direct Marketing**

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Direct marketing, which includes mail order, telemarketing, direct response television, and Internet sales, is an attractive sales method for suppliers attempting to reach the Japanese consumer while bypassing traditional distribution channels. Direct marketing sales are still modest by U.S. standards but increasing rapidly, particularly in the case of Internet sales.

Shopping from foreign catalogs, whether hard copy or on the web (generally referred to as "personal importing"), surged in the mid 1990s as a combination of novelty, a very strong yen, and an appreciation of foreign consumer goods grew. Although providing adequate customer service and handling product returns challenged those firms that did not have in-country representation, many U.S. companies enjoyed an enormous expansion of orders from Japan. Since 1996, however, the strengthening of the dollar and the passing of the "fad" component of the boom has caused the market to cool considerably. Nevertheless, opportunities still exist for companies that can offer Japanese consumers quality products with unique attributes. Further,



the dollar has weakened substantially in the past years, and this may help strengthen the industry.

U.S. companies must overcome a number of challenges such as language, international shipping costs, tariffs, and other issues that pertain when marketing directly to a Japanese consumer. U.S. companies aiming to enter this market should be prepared to make an investment in service and what is generally referred to as direct marketing infrastructure. A representative in Japan can act as a liaison with the U.S. supplier to handle receipt of claims, customs clearance, public relations and the preparation of Japanese-language materials. A local representative can also manage warehousing, delivery, and returns.

## **Joint Ventures/Licensing**

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American companies with limited resources or a short investment horizon may wish to consider product licensing as a means of entering the market. The direct costs of finding an appropriate Japanese licensee are small compared to other forms of market entry. Once a suitable agreement is reached, a licensing fee and royalties are low-cost, low-maintenance income for the U.S. company.

However, U.S. companies should note that licensing represents a minimal form of participation in the Japanese market. Whether a company should license its technology depends upon several factors. First, a U.S. company should consider its long-term plans for the Japanese and other Asian markets. Licensing necessarily means a loss of control over market strategy, and perhaps “opportunity costs.” Second, U.S. licensors should understand the strength of their company’s patent protection in Japan. Japan uses a “first to file” patent system, and this has ominous implications should a licensee explore becoming a competitor. Finally, the degree to which U.S. firms must disclose trade secrets or proprietary information is a key consideration. A Japanese licensee’s interest or enthusiasm for the U.S. technology is a direct reflection of the licensee’s assessment of the product’s competitiveness and sales expectations in a technologically sophisticated market. Thus a U.S. company’s long-term interest may lie in another form of market entry, even if it carries higher costs and longer payback periods.

A licensor also sacrifices potential returns from manufacturing and marketing efficiencies. While Japan is a high-cost country for marketing, it is also a large market over which to spread the costs of marketing, even for relatively specialized technology. Even after adapting a product for the Japanese market, U.S. manufacturers may realize better profit margins and market penetration by selling their own product, as opposed to through a licensee.

Harder to quantify are the costs of managing or — in some instances — “policing” the licensing agreement. In the worst cases, a licensee will improve upon or modify the U.S. product or technology, patent it as its own, and become a competitor in Japan, the U.S. or third countries.

It is also possible that the Japanese licensee could under-report sales in order to remit lower royalty payments to the U.S. company. The final drawback of licensing is that it provides the U.S. company with very little information or practical experience in the market. The Japanese market is very demanding, and it is important for a US company to develop direct experience here in order to successfully expand its presence. Japan is also a very good, though demanding, training ground. American companies can apply the lessons learned here to other markets, as well as improve the quality of their product or technology through direct contact with the market.

The pitfalls mentioned above account for the declining popularity of licensing in some industries. However, it may still be the best path for products with short life cycles where short-term income generation is desirable. Despite the warnings above, it makes business sense in industry sectors where the costs of entry are prohibitively high, or there are political sensitivities (such as defense-related equipment).



The key to a successful licensing agreement is a Japanese partner whose goals match those of the U.S. company. A strong licensee will have something to bring to the partnership as well. Perhaps the ideal license agreement will provide for an exchange of technology and know-how to strengthen both partners. It is essential that the U.S. licensor maintain close and frequent contact with the licensee, including visiting Japan regularly. A local representative, other than the licensee, can provide additional perspective on the market, and help represent both support and accountability to the licensee. Royalties paid by the Japanese licensee to the U.S. licensor are subject to a 20 percent withholding tax, which may be reduced to 10 percent if the necessary documentation is filed under the provisions of U.S.-Japan tax treaties.

According to Japan's Foreign Exchange and Foreign Trade Control Law, a foreign company granting a license to an independent Japanese corporation, either a wholly-owned subsidiary or a joint venture corporation that involves manufacturing in Japan, must notify the Ministry of Finance through the Bank of Japan in cases involving the transfer of specially regulated and/or designated technologies.

Additionally, the export of any form of technical data from the U.S. abroad is subject to U.S. export control laws. In this case, a thorough review of the U.S. Department of Commerce's Export Administration Regulations (EAR) should precede the signing of any licensing agreement.

Joint ventures remain a popular form of selling to Japan. Advantages include access to local market information and conditions, a stronger market presence, technology development, and gaining immediate access to a distribution system and customers. Most joint ventures take the form of a separate or third company established between an American and Japanese company, with a range of agreements covering shared functions, personnel, management, and ownership. In most cases, the Japanese partner has control over marketing and distribution functions. American companies must be prepared to share ownership, control, and of course profits, with its Japanese joint venture partner, and therefore issues of communication, trust, and common business interest are absolutely crucial.

Joint venture partnerships that involve technology transfer or license agreements with Japanese partners have the same pitfalls as a direct license agreement. The value of the joint venture may diminish as either party becomes less dependent on the other's marketing prowess, customer base, or technological innovations. American companies should also understand that many large trading companies have a large "ready-made" pool of existing customer relationships. This produces a rapid increase in initial sales, but once its "share" of the market is tapped, the Japanese partner often has little interest in prospecting for new customers, unless the product has extraordinary technological or price advantages. American companies should take the same precautions about divulging proprietary know-how in a joint venture as with license agreements.

A joint venture in Japan can be an unincorporated, contractual joint venture or an entity created by the acquisition of stock of an existing corporation. More typically, a JV is the incorporation either in the U.S., or more commonly in Japan, of a new company in which the Japanese and U.S. corporation mutually decide upon management control and the roles and responsibilities of each party. The Ministry of Finance (through the Bank of Japan) must be notified of the establishment of any joint venture. In addition, if the joint venture is intended to last more than one year, the joint venture agreement must be submitted to the Japanese Fair Trade Commission for review within thirty days of its execution.

## **Selling to the Government**

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On January 1, 1996, Japan implemented the WTO Agreement on Government Procurement in an effort to expand opportunities for foreign firms and increase international competition in

government procurement in Japan. The new agreement extends coverage to include the procurement of services as well as procurement throughout Japan by what are referred to as "sub-central government entities." These entities include all of the prefectural (regional) governments in Japan, major cities and designated municipalities, and a host of other quasi-governmental agencies, corporations, companies and authorities.

Government procurement contracts covered by the agreement must have a value not less than the thresholds (denominated in special drawing rights or "SDRs") specified by the agreement, and include the procurement of products and services by purchase, lease, or rental by the agencies and organizations subject to the agreement. Under the agreement, the specified threshold for procurement by central government entities is 130,000 SDRs (except for construction and architectural, engineering and other technical services). As a voluntary measure, Japan issued SDR thresholds beyond those specified in the agreement, e.g., 100,000 SDRs for procurement by central government entities (again, except for construction and architectural, engineering and other technical services). For sub-central government entities, with the same exceptions as above, Japan's threshold is 200,000 SDRs.

There are three types of government tendering procedures in Japan covered by the new agreement: (1) open tendering, (2) selective tendering, and (3) limited or single tendering. Under an open tender, the procuring entity publishes an invitation for qualified suppliers to participate in the tendering process. Contracts are awarded to the bidder that offers the greatest advantage in terms of price. Selective tendering is done in a case when open tendering is not necessary because there is only a small number of suppliers that could participate (due to the nature of the contract), or when open tendering is otherwise regarded as inappropriate. In this case, the procuring entity designates those companies it considers capable from a list of qualified suppliers and invites them to bid. Again, the contract is awarded to the bidder with the best price advantage. Limited (single) tenders award contracts without open competition. Limited tenders are used in a variety of cases (e.g., where products could not be obtained through open or selective procurement procedures, where there has been an absence of bids in response to a public notice, where it has been determined there is a need for protection of exclusive rights such as patents, or procurements of extreme urgency).

Open tender and selective tender invitations are published in Japan's official (central) government procurement gazette, called the *Kanpo*, or in an equivalent regional level publication, or other local publication. The procuring entity publishes the invitation to tender at least 50 days (40 days is required by the agreement) in advance of the closing date for receipt of bids. In order to increase access opportunities for foreign suppliers, as a voluntary measure, many procuring entities publish notices on the use of limited (closed) tenders at least twenty days in advance of the awarding of a contract. When the tender is announced on open bids, the type and quantity of products, time limits set for submission of bids, and names and contact data of the procuring entity are published within the announcement in English. Notices on selective tendering also contain the requirements to be designated to participate in the tender. It is important to read the tender notice carefully (the English-language text is mixed in with the Japanese language text), and most companies find it useful to directly contact the procuring entity with any specific questions before a tender is submitted. Japan's Ministry of Foreign Affairs hosts a Government Procurement Seminar every April where central government procuring entities explain their procurement plans for the fiscal year. Individual ministries sometimes follow this with their own seminars as well. Notice of these meetings can also be found in the *Kanpo* gazette. U.S. suppliers can also find information about Japanese government procurement at JETRO's web site at:

<http://www.jetro.go.jp/en/matching/procurement>.

Potential suppliers must first be qualified by the procuring agency and registered on the tendering agency's permanent list of qualified suppliers. Each procuring entity in Japan specifies the qualifications required of any potential supplier participating in open or selective

tenders. Procuring entities are allowed to review a company's capacity to implement a contract, including the scale of business and past business performance. In most cases, Japanese subsidiaries, agents, or distributors of a U.S. company can register on behalf of the firm. Documents required for qualification are set out in the public notice, but typically include: an application form, registration certificate, company history, financial statements, and tax payment certificate. The qualification is usually valid for one to two years.

Sealed bids must be submitted to the designated place by the closing date and time specified in the tender notice. Although a 5 percent guarantee fee is stipulated, payment of the fee is usually waived since those participating are normally pre-qualified. If there are tenders made by unqualified suppliers or in violation of the tender requirements, the procuring entity will rule them invalid and notify the unsuccessful bidder. The contract is normally awarded to the lowest qualified bid and bidders are informed of the result in writing by the procuring entity. Pursuant to the 1996 agreement, Japan has established a mechanism to process complaints about procurements by entities other than sub-central government entities. Complaints by qualified bidders may be filed with the Secretariat of the Board in the Office for Government Procurement Challenge System (CHANS), Coordination Bureau, Cabinet Office. For additional information, please click on [http://www5.cao.go.jp/access/english/chans\\_main\\_e.html](http://www5.cao.go.jp/access/english/chans_main_e.html).

## **Distribution and Sales Channels**

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Japan's distribution system remains complex, labor-intensive and filled with outmoded business practices. It is also expensive and accounts for much of the difference between prices in Japan and the rest of the world. The last decade was a difficult time for the distribution industry. Consumers demanded a more efficient market, lower retail prices and better selection of goods. This trend has become stronger, as Japanese buyers face tougher economic conditions. Nevertheless, the traditional system stubbornly survives in many industries. The drag on the domestic economy has been recognized, and is slowly changing, but remains a formidable barrier to imports and introduction of new goods and services.

Difficulties with Japanese distribution are often due to inherent, deep-rooted business practices. Domestic consumers have a strong demand for a wide variety of goods and services, but can be hesitant to disrupt longstanding relationships with suppliers—even when a U.S. supplier can offer a superior product at a lower price. Although the trend is changing, some retailers and wholesalers still fear retaliation from existing Japanese vendors if they switch to new overseas sources. At the same time, they may also be concerned that a foreign supplier will not make timely shipments or may lack adequate after-sales service ability, for which Japanese expectations run very high. These doubts stem in part from a traditional reluctance to do business with strangers, who could introduce uncertainty into predictable, existing business relationships. A clearly demonstrated commitment to foster long-term relationships with a Japanese counterpart is crucial to overcome this reluctance. An established presence in the market (if only through a knowledgeable and committed agent) is also vital to winning trust.

Until quite recently, about half of all consumer purchases were made at neighborhood "mom and pop" stores (with five or fewer employees), and these stores rarely carry imported goods. These stores often maintained strong ties to major domestic manufacturers that included product consignments, low interest loans, equity investments, and/or exclusive marketing arrangements. However, the economic stagnation over the past decade has taken a serious toll on small retailers. Their numbers are declining to such a level that soon they'll disappear — convenience stores, self-service discount stores, and "superstores" have taken over. The ascendance of more efficient retailers is also helping to reduce the layers in the distribution system and make imported goods more price competitive.

Imported consumer goods have traditionally been found at larger outlets such as department stores and discount houses. The new millennium has also brought about dramatic growth in specialty retailers, notably foreign names. Hand-in-hand with this development, direct importing

— bypassing trading houses and as many other intermediaries as possible — has become increasingly popular as companies become leaner and more cost conscious.

As larger retail outlets have spread in Japan, the regulation of “large stores” (those stores with over 500 square meters of sales space) is now part of the bureaucratic landscape. In 2000, the Large-Scale Retail Store Location Law went into effect. The law is intended to give local authorities the power to regulate new large stores only on the basis of environmental considerations. METI has made clear its intent to assure that stiffer environmental standards be used and that the new law will be applied with reasonable uniformity to all localities. The new law applies both to new store openings and to significant changes in the business operations of existing stores (such as an expansion of floor space or an extension of business hours). Many municipalities in Japan are taking advantage of the new law to draft ordinances that mandate parking space provisions and operating restrictions stricter than national norms or those recommended by METI.

Japanese deflation has made consumers of the world’s second largest economy appreciate low prices. Giant foreign distributors and retailers who survived fierce competition in their home and overseas markets with cost competitiveness and merchandise development have focused on the Japanese market. For example, Toys 'R' Us, which entered the market in 1991, now operates 140 stores in Japan. COSTCO opened its first store in 1999 and has expanded to four stores in four years. Wal-Mart, which is in the process of buying out a Japanese chain store, Seiyu, has several hundred stores in Japan. Metro (Germany) opened its first store in December 2002 jointly with a Japanese major trading company Marubeni, to focus on food business customers. Recently, Tesco (UK) announced its entrance into the Japanese market by buying out a medium-size supermarket chain.

However, Japanese consumers do not always accept the “foreign” way of retailing. Carrefour (France) entered the Japanese market in 2000 and operates four stores but has had to change their newest store to a more “Japanese style” — for example, by lowering fixture heights, increasing delicatessen space, and adding prestigious brand merchandise that it does not carry in France.

## **Selling Factors/Techniques**

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Sustained personal contact with customers is especially important. A visiting U.S. representative or resident agent in Japan should accompany their Japanese agent or distributor on visits to existing or potential Japanese customers. Making joint sales calls demonstrates commitment to the clients and is also an excellent way to obtain market feedback.

A common mistake made by U.S. companies in Japan is failure to provide ample support for their Japanese business partner after enjoying some initial successes, which can cause the relationship to turn sour after a successful honeymoon period. It is important to prevent a distributor from implementing a conservative, low-volume, high-markup marketing strategy that will protect their own interests while leaving the U.S. product's full sales potential undeveloped. Stay engaged!

To be successful selling in Japan, foreign exporters should know how to negotiate and maintain relationships with Japanese. Japanese language skills can be invaluable, as can a thorough background in Japanese culture and etiquette. Absent these capabilities, it remains just as important to be honest and direct, while avoiding appearing overbearing. Also be prepared to attend after-work social events. These informal gatherings go a long way towards establishing mutual trust and understanding between new partners. It’s been said that most business deals in Japan are made “after five”, that is, after work hours in a social setting.

Initial contacts between Japanese firms are usually formal and made at the executive level, while more detailed negotiations are often carried out at the working level. Typically, the first

meeting is to get acquainted, establish the broad interest of the calling party, and to allow both sides an opportunity to "size each other up." Don't expect too much from a first meeting -- sometimes the actual business subject may be overtaken by more mundane topics. A series of meetings with a large number of Japanese company representatives is common, as part of the "sizing up" process. Business negotiations may proceed slowly, as the Japanese side may prefer to avoid an agreement rather than being criticized later for making a mistake.

While many Japanese business executives speak some English, a skilled and well-briefed interpreter, while expensive, is essential to prevent communication problems. A good interpreter is worth the extra money. Though some U.S. firms do business in Japan without a signed contract, written contracts between U.S. and Japanese firms have become a universally accepted practice in Japan. They satisfy tax, customs and other legal requirements. Japanese companies prefer short, general contracts, while U.S. companies prefer to spell out rights and obligations in detail. A contract should be viewed as part of a greater effort to create an understanding of mutual obligations and expectations, rather than simply a tool in case of a lawsuit.

## **Electronic Commerce**

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The Japanese e-commerce market has shown significant growth, even since the "burst" of the IT bubble in 2000. The size of the market in 2003 was \$716 billion for "B to B" (a 63% increase from the previous year) and \$410 billion (a 65% increase from the previous year) for "B to C", according to the latest figures available from the Ministry of Economy, Trade and Industry. Both the "B to B" and "B to C" market values surpassed the target values set in the 2001 "e-Japan" Priority Policy Program. In 2003, the e-commerce penetration rate was 11.2% for "B to B" and 1.6% for "B to C". Approximately 10% of "B to B" is e-marketplace, which saw a 67.2% increase from the previous year.

The largest industry segments in e-commerce are automotive and ICT equipment; these make up nearly 70% of the total "B to B" market. Entering this market, however, may require U.S. exporters to engage in a considerable degree of relationship building since the "keiretsu" (industry affiliations) have great influence. Additionally, product/service quality (including after-sales support) and a good company record are highly emphasized by Japanese buyers. Price is usually not the primary decision making factor. E-marketplace is relatively open to new entrants, but still it requires communicating with marketplace organizers (usually trading companies) in order to participate. Also, all new entrants must complete their product/service localization in order to have productive discussions the organizers.

The following are major e-marketplaces in Japan:

Marketplace name: TWX21 (Hitachi)  
Products: MRO (Maintenance, Repair, Operations), etc.  
[http://www.twx-21.hitachi.ne.jp/e\\_index.htm](http://www.twx-21.hitachi.ne.jp/e_index.htm)

Marketplace name: SC Grainger (Japanese only)  
Products: MRO (Maintenance, Repair, Operations)  
<http://www.monotaro.com/>

Marketplace name: Alpha Purchase (Japanese only)  
Products: MRO (Maintenance, Repair, Operations) , etc.  
<http://www.alphapurchase.co.jp/homepage/index.html>

## **Trade Promotion and Advertising**

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Because many products from the United States fit a cultural or industrial environment that may not exist in Japan, educating the Japanese consumer as to the product's purpose, use, features



and quality may be necessary. However, not all companies can afford to place ads in Japan's major national daily newspapers or place commercials on Japanese television (all of which accept advertisements or commercials for either national or regional coverage). Regional and local newspapers and television stations, (including newly established cable operators) and sports daily newspapers are less expensive and might make sense for a product with strong distribution in a specific region. A more affordable option for small- to medium-size or new-to-market U.S. companies may be advertising in some of Japan's 2,250 weekly or monthly magazines. These publications often represent a cost-effective means to reach a specific target consumer -- whether gourmet or gardener, cyclist or camper. For industrial and commercial products, Japan's many industrial daily, weekly or monthly newspapers and trade journals may be the most cost-effective advertising option. While Japan has relatively few radio stations (Tokyo, for example, has only four AM and six FM commercial stations), radio advertising potential may be worth investigating.

Much of Japan's broadcast and print media do not deal with advertisers directly but go through Japan's top five advertising agencies: Dentsu, Hakuhodo, Asatsu, Tokyu Agency International and NTT Advertising. In general, "mood" or "image" advertising is generally thought to sell better in Japan. Hard-selling, comparative or combative advertising used to be considered in bad taste and to be counter-productive, although comparative selling is now becoming more mainstream in the tight economy.

Transit advertising should not be overlooked in Japan, where railroads are the primary means of transportation for commuters in major cities, carrying over 21 billion passengers annually. Transit advertisements are located either inside commuter rail cars or buses, or in stations. Ads inside trains and buses include hanging flyers, framed posters, stickers and on some train lines, flat-panel video screens. The major ad companies control ad space, as with the other media. Another common means of introducing, promoting and selling consumer products is to take part in large crowd events, such as regional import bazaars or American product festivals at shopping centers. These events can be a cost-effective means to reach masses of consumers with a product message, as well as providing a means of sampling and selling product to first time customers. Industry specific trade shows, such as for fishing equipment or outdoor products, may include days open to the general public, thus providing another means of reaching a target consumer audience.

Advertising and promotions should be part of a coordinated strategy, usually in cooperation with an advertising and/or PR firm. A great advertising campaign in the right magazine may turn out to be a waste of money if not coordinated with a distribution program whereby consumers can purchase the product being marketed. Advertising/PR firms can also help clients get free or low cost publicity, something the U.S. Commercial Service in Japan can also help provide for companies that participate in events it sponsors.

It is key for U.S. exporters of all kinds of goods and services to get onto the Japanese trade event circuit -- not only in Tokyo and Osaka, but in the huge regional economies and industrial centers, where 65 percent of Japan's over 1,000 international conferences, seminars and trade shows take place. These events are being attended more and more by regulatory officials and decision-makers from throughout Asia.

American companies should also consider U.S. Department of Commerce-sponsored trade shows and trade missions, as well as events sponsored by individual U.S. states, or industrial organizations. In some circumstances U.S. Government facilities such as U.S. Consulate multi-purpose rooms in Osaka, Nagoya, Fukuoka and Sapporo can be used for trade promotions, seminars, meetings and receptions. However, commercial use is generally restricted to states, associations, committees, and other uses for U.S. export or tourism promotion, where more than a single American company benefits. Interested companies should inquire directly with the Consulate(s) of interest.

Tough economic times have made price an increasingly important factor for Japanese consumers. Traditionally, many people made their buying decisions based on a product's attributes, quality and brand name, and were willing to pay more for superior quality. However Japanese consumers more than ever are becoming price conscious, and the notion of a "bargain" and considerations of "value for money" have become mainstream. If a comparable imported product or service can be purchased at a relative discount to those produced domestically, consumers will be interested. This has helped prove to many Japanese that affordable U.S. products are in fact of quality similar to, or in some cases higher than, Japanese goods.

This recent ability to compete on price is opening doors for U.S. products, especially during the last few years. However, landed cost is not the only consideration for U.S. firms interested in exporting to Japan, as it is only one part of a total pricing scheme. Distribution mark-ups in Japan often cause imported products to end up being priced at levels far higher than comparable domestic products. Shipping costs, for instance, between the port of Osaka and Tokyo have been shown to be three times higher than shipping costs from the West Coast of the United States to Osaka. A good example is imported US apparel products, where street prices often are three to four times FOB. Regional ports are seeking to compete, particularly with imports from China that are bringing deflation to Japan.

Japanese manufacturers of products such as consumer goods traditionally set prices at each level of the distribution chain and enforce compliance using complicated rebate systems. This kind of "price maintenance" has come under pressure from consumers who are demanding lower prices and from manufacturers who themselves find the rebate system burdensome. As distribution in Japan continues to be deregulated as a result of outside forces or from internal pressures, costs have been coming down and distributors have gained additional flexibility in selecting and purchasing items. In the meantime, U.S. exporters should consider yen fluctuation and internal distribution costs in their product pricing and sales strategies in Japan.

The pricing structure of imported goods in Japan varies according to the types of distribution channels and services that importers or wholesalers provide (e.g., inventory, advertisement costs, packaging costs, financing system, acceptance of unsold/returned goods, etc.) It is a multi-layered system, with established lines of product flow. In light of the recent economic downturn, more and more middlemen are either being eliminated or forced to cut prices and accept lower margins.

As Japanese consumers have become more price conscious, markups along the various distribution stages have tended to become smaller. Also, there are some retailers who import products directly in order to be able to offer lower retail prices. U.S. suppliers should understand that retailers tend to import smaller quantities and that importers/wholesalers will usually not be interested in representing products that are also directly imported by retailers.

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It cannot be emphasized enough: excellent product service and customer support throughout the sales cycle are important in Japan. This includes the establishment of solid business relationships with Japanese partners early in the relationship. Every effort should be made to answer technical questions in detail and ensure delivery dates and other issues regarding shipments of products are clear. Misunderstandings, lack of communication and misinterpretations of language, as well as differing business practices, often lead to problems in these areas.

Arrival times for shipments and the condition they arrive in are critical. Shipments should arrive at the agreed time, and should be well-packed and undamaged upon arrival. Japanese buyers

are very concerned with the quality of packing and have used poor packaging as an explanation for market entry problems. Missed deadlines and damaged goods through poor shipping practices can lead to lost business in Japan. Many successful U.S. companies doing business in Japan have established some kind of local presence to handle sales and to provide customer support and service. In some cases, local agents or distributors provide this support.

## Protecting Your Intellectual Property

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See below, under Chapter 6, [Investment Climate](#).

## Due Diligence

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A U.S. company resident in Japan is not legally required to use a Japanese attorney for filings, registrations, contracts or other legal documents, which can be prepared by in-house staff, but retaining a competent Japanese attorney (*bengoshi*), patent practitioner (*benrishi*), or other legal professional is a practical necessity. A U.S. company not resident in Japan should also retain competent Japanese counsel. Patents and trademarks must be filed through a Japanese agent, which should be a licensed attorney or patent practitioner.

In recent years, Japanese industry has been shaken by a record number of bankruptcies. Japanese commerce has also witnessed an unprecedented number of mergers and acquisitions. This rapid pace of industrial restructuring has created an increased level of risk for American companies selling into Japan.

The U.S. Embassy in Tokyo continues to see trade dispute cases of all kinds. It has become more common for small- and medium-sized Japanese trading companies to run into payment problems. Importers, wholesalers and distributors without real estate assets may find it more difficult to obtain trade financing in the present environment. Banks in Japan have become less inclined to provide credit to small- and medium-sized enterprises of all types. Larger companies with excessive debt may also experience problems obtaining finance.

As a result, American companies are well advised to perform due diligence procedures and check the bona fides of their Japanese agents and/or customers. A number of commercial agencies provide this type of service. For a list of information providers, please see "Business Service Providers" at <http://www.buyusa.gov/japan/en/bsp.html>.

## Local Professional Services

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## Web Resources

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Information on investing in Japan, establishing an office, and other programs for foreign businesses:

Japanese External Trade Organization (JETRO)  
[http://www.jetro.go.jp/en/invest/setting\\_up/section1.html](http://www.jetro.go.jp/en/invest/setting_up/section1.html)

Information on business service providers in Japan:

U.S. Commercial Service, American Embassy, Tokyo  
<http://www.buyusa.gov/japan/en/bsp.html>



Information on Japanese government procurement:  
<http://www.jetro.go.jp/en/matching/procurement>

Office for Government Procurement Challenge System (CHANS)  
Coordination Bureau  
Cabinet Office  
[http://www5.cao.go.jp/access/english/chans\\_main\\_e.html](http://www5.cao.go.jp/access/english/chans_main_e.html)

E-commerce marketplaces:

Marketplace name: TWX21 (Hitachi)  
Products: MRO (Maintenance, Repair, Operations), *etc.*  
URL: [http://www.twx-21.hitachi.ne.jp/e\\_index.htm](http://www.twx-21.hitachi.ne.jp/e_index.htm)

Marketplace name: SC Grainger (Japanese only)  
Products: MRO (Maintenance, Repair, Operations)  
URL: <http://www.monotaro.com/>

Marketplace name: Alpha Purchase (Japanese only)  
Products: MRO (Maintenance, Repair, Operations), *etc.*  
URL: <http://www.alphapurchase.co.jp/homepage/index.html>

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U.S. exporters seeking general export information/assistance or country-specific commercial information should consult with their nearest **Export Assistance Center** or the **U.S. Department of Commerce's Trade Information Center** at **(800) USA-TRADE**, or go to the following website: <http://www.export.gov>.

To the best of our knowledge, the information contained in this report is accurate as of the date published. However, **The Department of Commerce** does not take responsibility for actions readers may take based on the information contained herein. Readers should always conduct their own due diligence before entering into business ventures or other commercial arrangements. **The Department of Commerce** can assist companies in these endeavors.

## Chapter 4: Leading Sectors for U.S. Export and Investment

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### [Agricultural Sector](#)

#### Commercial Sectors

- [Medical Equipment \(MED\)](#)
- [Biotechnology \(BTC\)](#)
- [Electronic Components \(ELC\)](#)
- [Computer Software \(CSF\)](#)
- [Pharmaceuticals \(DRG\)](#)
- [Travel & Tourism \(TRA\)](#)
- [Aircraft / Aircraft Parts \(AIR\)](#)
- [New Energy Power Generation \(POL/ELP\)](#)
- [Dietary Supplements / Health Food \(FOD\)](#)
- [Lifestyle Market \(HCG\)](#)
- [Soil Remediation / Engineering Services \(ACE\)](#)
- [Auto Parts & Accessories \(APS\)](#)
- [Education & Training Services \(EDU\)](#)
- [Telecommunications Equipment \(TEL\)](#)
- [Building Products \(BLD\)](#)

### Agricultural Sector

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Despite prolonged economic stagnation, Japan continues to be one of the largest overseas customers of U.S. agricultural products. At 40%, the Japanese food self-sufficiency rate is the lowest of all industrialized countries, compared to the U.S. rate of 122% and the Japanese spend a very high percentage of their income on food (almost 20% compared to 10% in the United States). In 2002, the value of the Japanese consumer food and beverage market was \$557 billion. The total value of agricultural exports from the U.S. to Japan in 2003 was around \$11 billion, with top export products including corn, beef, soybeans, pork, feed grains, wheat, and produce. For complete agricultural statistics, please visit the web site of the U.S. Department of Agriculture's Foreign Agricultural Service at:

<http://www.fas.usda.gov/ustrade>

Opportunities exist for a range of agricultural products, in particular, processed and consumer ready food products. For U.S. companies to tap into this dynamic market, there are several key factors affecting food purchase trends that they must be aware of. These factors are a rapidly aging population, diversification of eating habits, emphasis on high quality, increasing demand for convenience, food safety concerns, and economic recession.

Japan's population is aging faster than any other country in the world. According to current forecasts, by 2010 more than 25% of the population will be over 65 years of age. Coupled with the fact that Japanese life expectancy is the highest in the world, there is a strong demand for "healthy foods". Such concepts as "functional foods" are well

understood, and many products certified by the Ministry of Health, Labor and Welfare as FOSHU (Food for Specific Health Use) are commonly consumed. Food products that are seen to have some health benefit, for example lowering cholesterol or containing a high level of antioxidants, have an advantage in Japan.

Since the 1960's, the Japanese diet has become dramatically westernized. In 1960, the source of per capita protein consumption was 32% from rice, 24% from seafood, 5% from meat and 3% from dairy products. In 2001, the percentages became 12%, 23%, 16% and 10%. Rice and tofu-based products have been replaced by meat and dairy as the main source of protein.

In addition to this move towards westernization, food trends have recently become more complex. Various ethnic foods are also becoming popular and are often combined with Japanese cuisine creating "fusion" foods. Another aspect of diversification is the trend of "individual eating", or convenience foods. Because of the busy, fast paced lifestyle of modern Japanese, it has become less common for all family members to eat together. "Individualization" of eating makes convenience an essential factor. Microwave (or semi- prepared) food and Home Meal Replacement (HMR) cuisine has become an indispensable part of life and are sold in restaurants and convenience stores such as 7-Eleven and Lawson's that are now found all over Japanese cities.

Economic stagnation and declining income have made people more price-conscious than in the past, however quality continues to be the most crucial factor in food purchasing decisions. Food safety has also become an important consideration for most Japanese consumers, who are more sensitive to perceived risk than the average American consumer.

Two of the biggest annual food related trade show in Japan and all of Asia are Foodex and the International Food and Ingredient Fair <http://www.ejkrause.com/ifiajapan/>.

#### **Web Resources**

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Statistics on U.S. agricultural exports <http://www.fas.usda.gov/ustrade>

Food-related trade shows in Japan      Foodex 2005  
<http://www2.jma.or.jp/foodex/en/think/focus.html>

International Food and Ingredient Fair <http://www.ejkrause.com/ifiajapan/>

Agricultural Trade Offices in Japan <http://www.atojapan.org>

Japanese Ministry of Agriculture, Forestry, and Fisheries <http://www.maff.go.jp/eindex.html>

Japanese Ministry of Health, Labor, and Welfare <http://www.mhlw.go.jp/english/index.html>

#### **Medical Equipment (MED)**

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## Overview

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<i>(millions of U.S. \$)</i>	2002	2003	2004 (estimated)
Total Market Size	18,184	18,144	18,752
Total Local Production	13,902	13,860	14,137
Total Exports	3,485	3,886	3,964
Total Imports	7,767	8,170	8,579
Imports from the U.S.	4,791	5,023	5,274

*(Note: The figures for 2002 and 2003 are the latest official figures; statistics for 2004 are unofficial estimates.)*

The Japanese medical equipment and supplies sector ranks second in the world and continues to be an extremely successful market for American firms, representing one of the few sectors where the U. S. has consistently achieved trade surpluses with Japan. The value of Japan's medical device sector was around \$18 billion in 2003. Traditionally, imports account for approximately 40 percent of this figure, with American firms supplying approximately 60 percent of all imported products. Total U.S. sales in this sector, including local production by American companies, are valued more than \$6 billion annually. Overall, Japan's market for medical devices is expected to exhibit steady but slow growth in 2005.

The Japanese Government has undertaken a major reform of the Pharmaceutical Affairs Law (PAL) for the first time in 40 years. This revision, which will be fully implemented by April 2005, is expected to have a long-term impact on the future of the Japanese medical device market. The principal idea of this revision is to shift the focus of the regulatory system from the point of manufacturing to the point of sale in order to put more emphasis on post marketing safety measures as opposed to the act of manufacturing. Thus the creation of the Marketing Authorization Holder (MAH), a Japanese company that holds legal responsibilities for product marketing in Japan, and which is also fully responsible for the safety and efficacy of the products. The MAH will be required to work hand-in-hand with the manufacturing facilities (both domestic and foreign) to ensure product quality standards. As a result, closer collaboration between Japanese importers/distributors and manufacturers will be required.

The speed of the regulatory review process continues to be a major issue. The launch of the new Pharmaceuticals and Medical Devices Agency (PMDA) in April 2004 was expected to expedite product reviews. PMDA, however, has a long way to go before it will be functioning at peak efficiency. This new agency has been facing a number of challenges such as a backlog of old applications and insufficient number of reviewers. On the reimbursement side, the Japanese Government will continue to focus on reducing medical device prices to counter-balance the increasing healthcare expenditures resulting from a rapidly aging society.

## Best Products/Services

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Despite these negative factors, American firms will continue to see bright sales prospects in the more technologically sophisticated product categories, especially where there is a lack of local competition. Those products include pacemakers, advanced interventional cardiology products, artificial implants, catheters and stents. Other areas

of projected strong demand include software and other products used in medical information systems and telemedicine.

## Opportunities

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- Event: The International Modern Hospital Show 2005 (IMHS2005)  
Dates: July 13 -15, 2005  
Venue: Tokyo Big Sight  
URL: <http://www.noma.or.jp/hs/index-e.html>  
Products: healthcare equipment, medical devices and materials, nursing care related devices and health care information systems.
- Event: HOSPEX Japan 2005  
Dates: November 9-11, 2005  
Venue: Tokyo Big Sight  
URL: <http://www.jma.or.jp/HOSPEX/en/index.html>  
Products: Hospital and welfare facilities (for operation division, central material division, ward, ICU & CCU, *etc.*), medical treatment equipment (for testing, treatment, rehabilitation, *etc.*), medical information system (for hospital management support, advanced treatment support, *etc.*), medical related services (pharmaceuticals & medical articles distribution system, sterilization system, hospital catering services, *etc.*), healthcare & welfare service support (facilities & equipment for institute care support, information system, nursing support services, *etc.*).

## Resources

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- CS Japan Contact: Hiroyuki Hanawa (Tokyo) [Hiroyuki.Hanawa@mail.doc.gov](mailto:Hiroyuki.Hanawa@mail.doc.gov)
- Ministry of Health, Labor and Welfare (MHLW) <http://www.mhlw.go.jp/>  
Pharmaceutical and Medical Device Agency (PMDA) <http://www.pmda.go.jp/>  
Advanced Medical Technology Association (AdvaMed) <http://www.advamed.org/>  
Medical Devices and Diagnostics Subcommittee, <http://www.accjmedtech.com/>  
American Chamber of Commerce in Japan (ACCJ) [http://www.accj.or.jp/content/01\\_home](http://www.accj.or.jp/content/01_home)  
Japan Federation of Medical Device Association (JFMDA) <http://www.jfmda.gr.jp/>

## Biotechnology (BTC)

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## Overview

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<i>(millions of U.S. \$)</i>	2002	2003	2004 (estimated)
Total Market Size	11,400	14,290	15,191
Total Local Production	n/a	n/a	n/a
Total Exports	n/a	n/a	n/a
Total Imports	n/a	n/a	n/a
Imports from the U.S.	n/a	n/a	n/a

*(Note: The above statistics are unofficial estimates. Because of the nature of the biotech industry, data on local production, exports/imports, etc., is unavailable.)*

Although Japan still lags considerably behind the United States and much of Europe in the development of its biotechnology sector, it is making considerable efforts to grow this sector as a major new industry. The Japanese government budget for biotechnology and life science related projects is expected to grow steadily despite Japan's continued sluggish economy. In recent years, the Japanese biotech industry has experienced substantial growth, with the number of Japanese biotech ventures increasing from 387 in 2003 to 464 in 2004. Increased cooperation between the Japanese public and private sectors and academic institutions has lead to the development of a vibrant industry, which is able to record more and more successful outcomes from its research efforts. The market size of the Japanese biotechnology industry in 2004 was \$15.2 billion, a six-percent growth rate over the previous year. Imports account for about one-third of all sales in the biotech-derived drug and medical device sector.

#### **Best Products/Services**

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Key market segments include pharmaceuticals and medical diagnostics, functional food, agriculture, bio-informatics and equipment for biotech research (DNA chips; reagents, etc). Among pharmaceuticals, the antibody therapeutics sector has a high growth potential. The Japanese pharmaceutical, food, agricultural and IT sectors continue to expand their biotech related activities. These firms are increasingly seeking opportunities to form strategic partnerships, research collaborations, and licensing arrangements with U.S. companies and research institutes.

#### **Opportunities**

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Event: BioJapan 2005  
 Dates: September 7-9, 2005  
 Venue: Pacifico Yokohama  
 URL: <http://expo.nikkeibp.co.jp/biojapan/2005>

Event: International Bio Expo Japan  
 Dates: May 18-20, 2005  
 Venue: Tokyo Big Sight  
 URL: <http://www.bio-expo.jp/>

#### **Resources**

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CS Japan Contact: Tamami Imai (Tokyo)

[Tamami.Imai@mail.doc.gov](mailto:Tamami.Imai@mail.doc.gov)

Japan Bioindustry Association (JBA)

<http://www.jba.or.jp/>

Kinki Bio-industry Development Organization

<http://www.kinkibio.com/>

## Electronic Components (ELC)

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### Overview

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(millions of U.S. \$)	2002	2003	2004 (estimated)
Total Market Size	43,300	44,633	47,399
Total Local Production	73,300	90,024	92,994
Total Exports	61,200	85,002	87,696
Total Imports	31,200	39,611	42,101
Imports from the U.S.	12,500	18,800	19,750

(Note: The above statistics are unofficial CS estimates)

Japan is the world's second largest market for electronic components and — although competition from Japanese and other companies is fierce — can still be considered as a leading sector for export opportunities for U.S. suppliers. According to the Japan Electronics and Information Technology Association (JEITA), domestic production of electronic components and devices was estimated to increase by 3.3% and reach a market value of \$93 billion in 2004. Growth is being driven by the production of digital home appliances, such as liquid crystal device (LCD) and plasma display panel (PDP) televisions, DVD recorders, digital cameras, and 3G cellular phones. The market for these appliances is estimated to grow 14.6% and reach the \$250 billion level in 2004. The size and rapid growth of the appliances market make it a promising sector for U.S. electronic component exporters.

### Best Products/Services

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Liquid crystal and plasma display devices and software.

### Opportunities

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CEATEC Japan 2005 (<http://www.ceatec.com/en/2005/>)

Date: October 4-8, 2005

Venue: Tokyo Big Sight

Organizers:

The Japan Electronics and Information Technology Industries Association  
Communications and Information network Association of Japan  
Japan Personal Computer Software Association

FPD International (<http://expo.nikkeibp.co.jp/fpd/english/>)

Date: October 19-21, 2005

Venue: Pacifico Yokohama

Organizers:

Nikkei Business Publications  
SEMI

Semicon Japan (<http://wps2a.semi.org/wps/portal>)

Date: December 7-9, 2005

Venue: Tokyo Big Sight

Organizer: SEMI

Internecon 2006 (<http://www.nepcon.jp/english/>)

Date: January 18-20, 2006

Venue: Tokyo Big Sight

Organizer: Reed Exhibition Japan

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CS Japan Contact: Toshihiro Matsuda (Tokyo) [Toshihiro.Matsuda@mail.doc.gov](mailto:Toshihiro.Matsuda@mail.doc.gov)

The Japan Electronics and Information Technology Industries Association (JEITA)  
<http://www.jeita.or.jp/english/index.htm>

Japan Electronic Product Importers Association (JEPIA)  
<http://www.jepia.gr.jp/eindex.html>

Distributors Association of Foreign Semiconductors  
<http://www.dafs.or.jp/>

## Computer Software (CSF)

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## Overview

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(millions of U.S. \$)	2002	2003	2004 (estimated)
Total Market Size	20,386	20,568	21,603
Total Local Production	13,238	13,356	14,028
Total Exports	794	801	842
Total Imports	7,943	8,014	8,417
Imports from the U.S.	5,957	6,010	6,312

(Note: The above statistics are unofficial CS estimates.)

Japan's software business has been growing steadily as Japan's investment in IT has shifted from hardware and network infrastructure to software and services. By industry sector, manufacturing, finance, information services, and government procurement are currently the major buying segments. In fact, these four segments together currently account for over 60% of total market revenue. The Japanese software market is heavily dependent on imports and the majority of imported software in Japan is of U.S. origin. Some non-Japanese software companies, including major U.S. software companies, have established the de facto standards for Japan in certain software categories, such as Microsoft's OS and Oracle's database.

## Best Prospects/Services

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Enterprise Resource Planning (ERP), Data Warehouse (DWH), System Management, Supply Chain Management (SCM), and security software and other software products that utilize improved hardware and network infrastructure.

### Opportunities

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For U.S. exporters, the Japanese software market is attractive in terms of the size and demand for quality software imports. This trend should continue as the Japanese software industry historically struggles with increasing development costs and a lack of skilled engineers. There are three key elements to launching software products into the Japanese market: (1) localization — localization includes Japanese translation, testing, and customization. Software suppliers are required to provide not only translations but to consider Japanese business customs and culture to meet local client needs; (2) support capability - Japanese language support is mandatory; and (3) product quality — quality control is one of the most important considerations for Japanese users.

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### Pharmaceuticals (DRG)

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### Overview

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(millions of U.S. \$)	2002	2003	2004 (estimated)
Total Market Size	66,332	67,630	69,227
Total Local Production	60,004	60,409	61,617
Total Exports	741	926	944
Total Imports	7,069	8,146	8,554
Imports from the U.S.	1,500	1,622	1,703

*(Note: The figures for 2002 and 2003 are the latest official figures; statistics for 2004 are unofficial estimates.)*

Japan continues to be the world's second largest consumer of pharmaceuticals and the largest international market for American drug firms. Each year, sales of prescription drugs in Japan total about \$70 billion. Japan's imports of pharmaceuticals account for almost 10 percent of the total market, and industry sources indicate that the total market share of foreign-origin drugs in Japan is much higher than suggested by current import levels. The market share for foreign firms is estimated to be approximately 45 percent if one includes direct imports, local production by foreign firms and compounds licensed to Japanese manufacturers. American pharmaceutical firms have achieved a market share approaching 20 percent.

The Japanese Government has undertaken a major reform of the Pharmaceutical Affairs Law (PAL) for the first time in 40 years. This revision, which will be fully implemented by April 2005, is expected to have a substantial long-term impact on the future of the Japanese drug market. The principal idea of this revision is to shift the focus of the regulatory system from the point of manufacture to the point of sale in order to put more

emphasis on post marketing safety measures, as opposed to the act of manufacturing. The current manufacturing approval system will be changed to a marketing approval system. Under the marketing approval system, a drug company will no longer be required to have a manufacturing facility in Japan. Drug firms can outsource the entire manufacturing process if they so choose. The Japanese pharmaceutical industry believes that this change will enable drug companies to operate in a more efficient manner, facilitating production alliances and production division spin-offs. The market for contract manufacturing is expected to grow, possibly benefiting American contract manufacturers as well.

In a major policy paper known as "the Vision" released in August 2002, Japan recognized that innovation could foster economic growth and lead to improved healthcare. In the Vision paper, action plans comprising a wide range of policies concerning the R&D environment, regulatory system, and insurance reimbursements were presented as "concrete measures to be carried out in an intensive period" (within five years) to promote innovation. The Vision also recognizes the role of the market and the value of innovation. Although the Vision was created to spur the development of the Japanese pharmaceutical industry by fostering an atmosphere of innovativeness, U.S. pharmaceutical products would also stand to benefit, provided the Vision is implemented properly.

#### **Best Products/Services**

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Japan's aging population is generating increased demand for pharmaceutical treatments for such chronic illnesses as cardiovascular problems, digestive problems, diabetes, and cancer, as well as for diagnostic reagents, etc. It is also expected that the Japanese government will further promote the use of generic drugs because Japan's aging population is creating a budgetary crisis in the healthcare system.

#### **Opportunities**

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Event: Japan Drug Store Show 2005  
Dates: February 10-12, 2005  
Venue: Tokyo Big Sight  
URL: <http://www.jacds.gr.jp/>  
Products: OTC (medication), medicine, cosmetics, cosmetics miscellaneous goods, functional food stuffs, healthcare, beauty care, supplement, prescription systems and care products, food and drink, home care, life enjoyment, store facilities, publishing and others.

Event: CPhI Japan 2005  
Dates: April 20-22, 2005  
Venue: Tokyo Big Sight  
URL: <http://www.cphijapan.com/>  
Products: active pharmaceutical ingredients, contract manufacturing, biotechnologies, additives, fine chemicals, intermediates.

Event: INTERPHEX JAPAN  
Dates: May 18-20, 2005  
Venue: Tokyo Big Sight  
URL: <http://www.interphex.jp/>

Products: raw materials, additives, materials process machinery & equipment, etc.

## Resources

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CS Japan Contact: Hiroyuki Hanawa (Tokyo)

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Ministry of Health, Labor and Welfare (MHLW)

<http://www.mhlw.go.jp/>

Pharmaceutical and Medical Device Agency (PMDA)

<http://www.pmda.go.jp/>

Pharmaceutical Research and Manufacturers of America

<http://www.phrma-jp.org/>

The Japan Pharmaceutical Manufacturers Association

<http://www.jpma.or.jp/>

## Travel and Tourism (TRA)

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### Overview

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<i>(Millions of U.S. \$) (Millions of people)</i>	2000	2001	2002	2003
Total outbound market	\$42,112	\$43,796	\$42,591	\$44,150
Outbound to the U.S.	\$14,011	\$11,705	\$10,922	\$11,000
Number of outbound travelers	17.8	16.2	16.6	16.9
Number of outbound travelers to U.S.	5.06	4.10	3.63	3.17

*(Note: Data for 2004 is not available. The above statistics are unofficial estimates.*

*Sources: U.S. Department of Commerce, Office of Travel and Tourism Industries, Japan Tourism Marketing Co.)*

Japan has for many years been the largest overseas travel and tourism market for the United States. However, immediately following the September 2001 terrorist attacks on the World Trade Center in New York, Japanese outbound travel dropped considerably, especially to the United States. Since 2001, the increase in Japanese outbound travelers to the United States has been slow compared to the Japanese traveler's return to other countries, but even so, Japanese visitors to the United States still accounted for almost two-thirds of all Asian visitors in the first four months of 2004.

The United States is one of the most popular destinations for Japanese travelers, many of whom are repeat visitors. Over 70 percent of the repeater travelers visited the U.S. mainland and Hawaii last year. Other competitive long-haul destinations for Japanese tourists are European countries, especially for first-time travelers. Short-haul destinations such as South Korea and China remain very competitive, and received over one quarter of all outbound Japanese travelers. A majority of Japanese tourists throughout the 1990 were females, typically groups of single working women and "mother & daughter" trips. However, the male market is growing, and by 2003 had overtaken the female market. Males in their 30s and 40s are now the majority of Japanese travelers to the United States.

Package tour/group trips are still the most popular and convenient way for Japanese travelers to make their arrangements. However, individually arranged travel is gaining in popularity, mainly due to the many options now available on the Internet.

### Best Products/Services

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Niche market travel is increasingly popular, especially in the following areas: (1) viewing nature and scenic attractions; (2) shopping for local products, rather than brand names; (3) visiting sites and attractions in historic and cultural areas; (4) gourmet/cuisine sampling; (5) healing and relaxation trips; and (6) visits to art galleries and museums.

### Opportunities

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Event: JATA World Travel Fair  
Dates: September 22 – 24, 2005  
Venue: Tokyo Big Sight, Tokyo, Japan  
URL: [www.jata-wtf.com/](http://www.jata-wtf.com/)

Event: Japan Visit USA Committee SeeAmerica Workshop  
Date: September 20, 2005  
Venue: in Osaka, Japan (venue TBD)  
URL: [www.japan-usa.co.jp/e-home.html](http://www.japan-usa.co.jp/e-home.html)

### Resources

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### Aircraft / Aircraft Parts (AIR)

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### Overview

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<i>(millions of U.S. \$)</i>	2002	2003	2004 (estimated)
Total Market Size	7,911	8,627	9,337
Total Local Production	7,582	7,695	8,931
Total Exports	2,213	2,220	2,495
Total Imports	2,542	3,152	2,901
Imports from the U.S.	2,015	2,801	2,781

*(Note: The above statistics are unofficial estimates, based on Ministry of Finance and Society of Japanese Aerospace Companies (SJAC))*

Japan's aerospace sector continues to represent a major market for U.S. aerospace firms. From 2003 to 2004, U.S. exporters experienced growing shares of imports to the aerospace market, accounting for 87 percent in 2003 and 93 percent as of November 2004. During the same period, France's share declined from 6 percent to 3 percent. Domestic production of Japanese aerospace industries has averaged about \$12 billion annually in recent years.

Defense orders take up about 60 percent of Japan's aircraft industry. The Japan Defense Agency (JDA)'s ongoing projects to develop the next-generation maritime patrol aircraft (P-X) and cargo transport aircraft (C-X), along with other projects, are likely to offer business opportunities for U.S.-made aircraft engines, avionics, and aircraft parts and supplies, in partnerships with Japanese manufacturers.

On the commercial side, competition between Boeing and Airbus continues. In Japan, Airbus is marketing its A380 super jumbo jet, due for service in 2006, by teaming up with 15 Japanese manufacturers in production of aircraft components. Boeing, on the other hand, has focused on the joint development of the medium-sized 787 Dreamliner aircraft with Japan's major aircraft manufacturers. In July 2004, ANA became the launch customer of the Boeing 787 project when it announced its decision to purchase 50 787s. JAL also followed up with its announcement to procure 30 787s in December 2004.

Japan's major aerospace manufacturers have long engaged in joint production of aircraft and aircraft components with overseas manufacturers, such as Boeing, and are especially enthusiastic about opportunities to work with U.S. makers of advanced aerospace technologies and equipment. In defense programs, license production of U.S. aircraft, engines and military hardware have been the ongoing practice with Japanese manufacturers.

Japan is currently experiencing a boom in airport infrastructure development: the Central Japan International Airport (Centrair) will open in Nagoya in February 2005, while the current Nagoya Airport will transfer to a commuter flight base; the Kobe and Kita Kyushu Airports will be completed in 2006; and the Haneda, Narita and Kansai Airports will further expand. These developments are expected to create vibrant opportunities for regional airlines and corporate jet operations.

#### **Best Prospects/Services**

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Commercial aircraft, including business jets, helicopters, aircraft parts and supplies, avionics, GSEs.

#### **Opportunities**

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The next major aerospace show in Japan is "Japan Aerospace 2008," organized by the Society of Japanese Aerospace Companies (SJAC).

#### **Resources**

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Society of Japanese Aerospace Companies

<http://www.sjac.or.jp/>

#### **New Energy Power Generation (POL/ELP)**

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#### **Overview**

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<i>(millions of U.S. \$)</i>	2002	2003	2004 (estimated)
Total Market Size	1,600	2,229	2,340
Total Local Production	1,750	2,476	2,600
Total Exports	350	494	600
Total Imports	175	247	340
Imports from the U.S.	50	60	70

*(Note: The above statistics are unofficial US&FCS estimates.)*

New Energy Power Generation here refers to wind, photovoltaic, micro hydropower, waste and biomass power generation as well as fuel cells. On June 4, 2002, Japan ratified the Kyoto Protocol to the United Nations Framework Convention on Climate Change. Based on the Kyoto Protocol, Japan commits to reducing its 2010 greenhouse gas emissions to a level six percent lower than its 1990 emissions level. To secure this reduction in greenhouse gases, the Government of Japan (GOJ) has set an ambitious policy goal targeting a 10-fold increase by 2010 of new energy power generation over 1999 levels. To achieve of this ambitious goal, the GOJ has provided industrial subsidies for new energy development and enacted the RPS (Renewable Portfolio Standards) Law in June 2002. The RPS law will require Japanese electric utilities to use renewable energy sources for a certain percentage of their sales. This has generated a flurry of activity by utilities to ensure compliance with this new policy target.

#### **Best Products/Services**

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Best products include products and services in wind power generation and fuel cell technology.

#### **Opportunities**

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With regards to the New Energy Power Generation sector, we are not aware at this time of any investment opportunities, infrastructure projects, and development bank-funded projects open for U.S. companies to bid on.

#### **Resources**

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CS Japan Contact: Kenji Kobayashi (Tokyo)

[Kenji.Kobayashi@mail.doc.gov](mailto:Kenji.Kobayashi@mail.doc.gov)

Useful Websites:

New Energy and Industrial Technology Development Organization (NEDO)

<http://www.nedo.go.jp/english/activities/newenergy/index.html>

#### **Dietary Supplements / Health Food (FOD)**

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#### **Overview**

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<i>(millions of U.S. \$)</i>	2002	2003	2004 (estimated)
Total Market Size	8,333	9,565	10,696
Total Local Production	6,265	7,228	8,079
Total Exports	74	83	93
Total Imports	2,142	2,420	2,710
Imports from the U.S.	732	827	926

*(Note: The above statistics are unofficial estimates.)*

Japan is the second largest market for dietary supplements in the world, after the United States. The current size of the Japanese market for nutritional supplements and health foods is over \$10 billion annually. It is a growing market, thanks to a rapidly aging population, a rise in health consciousness amongst Japanese consumers and the healthcare system reform plan implemented by the government.

Because of the burden placed on Japan's healthcare system by an aging population, the Japanese government needs to try and hold down healthcare costs as much as possible. They are therefore emphasizing the importance of preventing chronic, life-style diseases such as diabetes and cardiovascular disease. Nutritional supplements can play an important role in this goal, and are gaining popularity amongst Japanese consumers. According to a study conducted by the Ministry of Health, Labor and Welfare (MHLW), 17% of the male population and 23% of the female population in Japan take some kind of supplement regularly. More than 60% of these people take a supplement every day.

Approximately two-thirds of the nutritional items sold in Japan are done so through non-traditional sales channels such as direct marketing and mail order. This dependence on non-traditional marketing techniques is partially the result of a loophole in Japan's generally restrictive regulatory environment. Many supplements sold in the United States are not approved for sale in Japan. However, individual imports via the mail or as part of personal baggage when returning from overseas are allowed. The rapid expansion of Internet use in Japan is also contributing to the increased sales of these products.

#### **Best Products/Services**

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Co-Enzyme Q10-related products were the top sellers in 2004. Because of it being a mega-hit, the Japanese market is facing a supply shortage of these products. Other best prospects for the coming year are nutritional supplements and health foods that are for the prevention of lifestyle-related illness such as heart diseases, diabetes, stroke and high blood pressure. Nutritional supplements targeting anti-aging and beauty-care also have good potential.

#### **Opportunities**

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Event: Tokyo Health Industry Show  
 Dates: March 16-18, 2005  
 Venue: Tokyo Big Sight  
 URL: <http://www.health-industry-news.co.jp/english/exhibit/health.phtml>



Event: Natural Products Expo Japan  
Dates: May 17-19, 2005  
Venue: Tokyo Ryutsu Center  
URL: <http://www.naturalproductsexpo.jp/>

Event: Japan Drugstore Show  
Dates: February 10-12, 2005  
Venue: Tokyo Big Sight  
URL: <http://www.grnet.co.jp/drugstoreshow>

Event: Health Ingredients Japan  
Dates: October 5-7, 2005  
Venue: Tokyo Big Sight  
URL: <http://www.hijapan.info/>

## Resources

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CS Japan Contact: Tamami Imai (Tokyo)

[Tamami.Imai@mail.doc.gov](mailto:Tamami.Imai@mail.doc.gov)

NNFA Japan

<http://www.nnfajapan.com/>

GOJ Ministry of Health, Labor and Welfare (MHLW) – information on food imports

<http://www.mhlw.go.jp/english/topics/importedfoods/index.html>

## Lifestyle Market (HCG)

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## Overview

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(millions of U.S. \$)	2002	2003	2004 (estimated)
Total Market Size	28,700	31,500	35,200
Total Local Production	25,900	28,200	30,900
Total Exports	1,800	2,100	2,300
Total Imports	4,600	5,400	6,600
Imports from the U.S.	504	540	590
Exchange rates	125	116	107

*(Note: There are no official statistics on the lifestyle market. The above statistics are estimated figures by industry experts.)*

Lifestyle stores are attracting the attention of Japanese consumers, who are increasingly interested in creating their own living space by means of lifestyle products. Though the term “lifestyle products” may sound broad and hard to grasp, lifestyle products are grouped into five identifiable sub-sectors: housewares; home appliances; furniture & home furnishings; interior fabrics; and other. The market is estimated at \$35 billion in 2004; the home appliance sector accounted for the largest share at 50 percent, followed by furniture and home furnishings at 25 percent, housewares at 20 percent, interior textiles at three percent, and other at two percent, according to industry experts.

In 2000, Japan had 47 million households with a total population of 127 million. Young consumers are sensitive to home fashion, wishing to assert their distinctive lifestyles. Middle-aged consumers are strongly interested in keeping up with their health and wellness under severe time constraints. Japan's seniors today lead very active lifestyles, greatly different from seniors of the past. And overall Japanese consumers are spending more and more time at home, and the concept of nesting or staying home and relaxing is gaining broad social acceptance.

The growth of the lifestyle market is demonstrated by the opening of new stores and favorable sales reports from lifestyle stores. For example, Mitsukoshi Department Store will start operating LACHIC in Nagoya in spring 2005. It will house about 170 specialty stores featuring lifestyle products. Also, Bals Corporation, which operates popular FranFranc lifestyle stores successfully, added an upscale lifestyle store AGITO in the Roppongi Hills shopping complex in Tokyo. In addition, mass merchants such as JUSCO of the AEON Group and Shimachu Home Center are strengthening home fashion items to attract consumers with different lifestyles.

It is important to note that the product lines in these stores are becoming increasingly international, while Japanese consumers' lifestyles are growing more and more diversified. Although Japanese living standards have greatly improved, Japanese homes in general still lack color and creative design compared to homes in the United States and Europe, presenting an excellent opportunity for U.S. exporters to contribute to the upgrading of Japanese homes.

#### **Best Prospects/Services**

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Time-pressed consumers seek housewares that are time-saving and multi-functional. Outdoor leisure activities are viewed as good for relaxation and healing, and consumers will continue to look for outdoor leisure products such as items for the patio and the garden.

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Event:	Interior Lifestyle/Ambiente Japan
Dates:	June 8-0, 2005
Venue:	Tokyo International Exhibition Center ( <a href="http://www.bigsight.jp/">www.bigsight.jp/</a> )
URL:	<a href="http://www.mesago-messefrankfurt.com">www.mesago-messefrankfurt.com</a>
Products:	Housewares such as tabletop, cookware, kitchen accessories, cutlery and cleaning goods, small and major appliances, furniture and home furnishings, lightings, outdoor living and gardening items, giftware and other household consumer products

Event:	Tokyo International Gift Show
Date:	September 2005
Venue:	Tokyo International Exhibition Center
URL:	<a href="http://www.giftshow.co.jp/">www.giftshow.co.jp/</a>
Products:	Giftware

Event:	International Furniture Fair Tokyo
Dates:	November 22-25, 2005
Venue:	Tokyo International Exhibition Center

URL: [www.idafij.or.jp](http://www.idafij.or.jp)  
Products: Furniture and home accessories

## Resources

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CS Japan Contact: Keiko Nomoto (Tokyo)

[Keiko.Nomoto@mail.doc.gov](mailto:Keiko.Nomoto@mail.doc.gov)

International Development Association of Furniture Industry of Japan

[www.idafij.or.jp](http://www.idafij.or.jp)

Japan Houseware Importers Association

[www.jhi.or.jp](http://www.jhi.or.jp)

## Soil Remediation / Engineering Services (ACE)

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## Overview

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(millions of U.S. \$)	2002	2003	2004 (estimated)
Total Market Size	800	900	950
Total Local Production	790	850	900
Total Exports	0	0	0
Total Imports	10	50	50
Imports from the U.S.	8	40	40

*Note: CS Japan has estimated the above statistics based on information from the Geo-environment Protection Center (the largest soil remediation-related industry association under the Ministry of Environment). Currently, very few U.S. soil remediation engineering firms have established offices in Japan. While several Japanese firms maintain licensing agreements with international firms, including U.S. firms, official information on direct sales by U.S. firms is not available.*

Soil remediation is a new market in Japan and is expected to offer an increasing number of business opportunities. According to Japanese industry observers and environment-related industry associations, the volume of Japan's contaminated land is huge, and more than \$120 billion (including expenses for engineering services and remediation machinery/equipment, and operation costs of remediation facilities) is required to improve all the contaminated areas. Under these circumstances, soil remediation work will gradually increase, and the market should grow to \$1 billion annually by 2005.

While no official annual market statistics for the soil remediation "engineering services" segment in this market are available, we estimate it to have been \$900 million in 2003 and \$950 million in 2004. Soil-remediation-related laws enacted in May 2002 were expected to expand the demand, but those laws do not necessarily mandate soil purification work but rather simple civil engineering work to cover contaminated land. We expect that those laws and related regulations will be reviewed and enforced, thereby requiring genuine clean up work at contaminated sites.

Soil remediation engineering services are, in general, divided into two categories in Japan, (1) planning, research and design (PRD) and (2) remediation work to clean up

the soil (RMCUS). U.S. expertise in PRD is expected to be the more attractive of these two categories. The major causes of contamination are improper treatment or leakage of hazardous substances causing permeation into the groundwater. The primary hazardous substances are heavy metals, volatile organic compounds and complex pollution.

### Best Products/Services

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Several Japanese firms, particularly general contractors and water treatment firms, have dominated the market. U.S. firms with new technologies or approaches will find success by effectively gathering market information, becoming familiar with laws and regulations, and establishing ties with various Japanese companies including general contractors and water treatment companies. It is also important to tie up with Japanese PRD companies and civil-engineering consulting firms.

### Opportunities

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With regard to the Soil Remediation / Engineering Services sector, we are not aware at this time of any investment opportunities, infrastructure projects, and development bank-funded projects open for U.S. companies to bid on.

### Resources

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CS Japan Contact: Kenji Kobayashi (Tokyo)

[Kenji.Kobayashi@mail.doc.gov](mailto:Kenji.Kobayashi@mail.doc.gov)

Useful Websites:

Geo-Environmental Protection Center  
<http://www.gepc.or.jp/english/eindex.html>

### Auto Parts & Accessories (APS)

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### Overview

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(millions of U.S. \$)	2002	2003	2004 (estimated)
Total Market Size	104,228	120,707	138,304
Total Local Production	131,091	151,566	176,096
Total Exports	31,029	35,602	47,054
Total Imports	4,166	4,743	9,262
Imports from the U.S.	1,387	1,130	1,288

(Source: the above statistics are unofficial estimates based on data received from the Japan Automobile Parts Industry Association.)

**Note 1:** Production figures in the above table are CS Japan extrapolations of actual Japanese fiscal year (April – March) figures of member companies of the Japan Auto Parts Industry Association (JAPIA). JAPIA statistics, by JAPIA's own estimate, account for 80 percent of Japan's total auto parts production. CS Japan has therefore increased

*JAPIA's figures by 20 percent to calculate the estimated total Japanese auto parts production figures, which appear in the table.*

**Note 2:** JAPIA production figures do not include glass, tire, battery, or bearing products.

According to the Japan Auto Parts Industry Association, auto parts production in Japan's fiscal year 2003 (April 2003 through March 2004) was 14,792 billion yen (\$140.9 billion at 105 yen/dollar) up 6.1 percent from 13,944 billion yen (\$121.3 at 115 yen/dollar) the previous fiscal year. Because of Japan's status as the world's second largest auto producing country and the world's second largest market for automobiles, the auto parts industry is one of Japan's largest and most important. Imports of automobile parts and equipment make up only about four percent of the total market, but U.S. auto parts manufacturers do have a significant share of Japan's imported auto parts market (approximately 24 percent in 2003). Deregulation of Japan's auto parts market resulting from U.S. government pressure and competitive market forces are opening up opportunities for foreign auto parts and equipment suppliers in the OEM in the United States market and aftermarket sectors in Japan. However, stiff competition remains, but U.S. auto parts sales to both domestic and Japanese transplants have been increasing reflecting Japanese automotive manufacturers' worldwide operations.

#### **Best Products/Services**

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Future growth areas include auto parts sales to Japanese transplant factories in the U.S. and new technologies such as Intelligent Transportation Systems (ITS).

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With regard to the Auto Parts & Accessories sector, we are not aware at this time of any investment opportunities, infrastructure projects, and development bank-funded projects open for U.S. companies to bid on.

#### **Resources**

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CS Japan Contact: Hisao Tamada (Tokyo)

[Hisao.Tamada@mail.doc.gov](mailto:Hisao.Tamada@mail.doc.gov)

Useful Websites:

Japan Auto Parts Industries Association

[http://www.japia.or.jp/public/jsp/japia/e\\_index.jsp](http://www.japia.or.jp/public/jsp/japia/e_index.jsp)

Japan Automobile Manufacturers Association, Inc.

<http://www.jama-english.jp/>

Japan American Automotive Group

<http://mema-ap.org>

#### **Education & Training Services (EDU)**

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	2002/2003	2003/2004	2004/2005 (estimated)
Total Market Size (\$ million)	1,000	927	935
Foreign students in U.S.	586,323	572,509	-
Japanese students in US	45,060	40,835	40,000

*(Note: Market size figures are unofficial estimates.)*

In 2003/2004, a total of 572,509 foreign students studied in the United States, of which, 40,835 were Japanese students. In terms of the number of students studying in the United States, Japanese students ranked fourth after students from India, China and Korea. Foreign students' (and their spouses') spending in the United States (tuition & living expenses) is estimated at over \$13 billion dollars for 2003/2004.

About 70 percent of Japanese students enrolled are in undergraduate programs, in sharp contrast to Chinese and Indian students, who mainly enroll in graduate programs. In addition to the 40,835 students noted above, thousands of Japanese go to the United States for short-term language studies. Following the September 2001 terrorist attacks, the number of these short-term language students declined significantly, and in 2004, enrollments in degree programs in the United States dropped by 11 percent.

#### **Best Prospects/Services**

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Interest in two-year colleges is rapidly growing, especially for schools with lower TOEFL requirements. Graduate studies in the United States are also becoming more attractive to Japanese students. Among the graduate studies, MBA programs are especially popular since Japan does not have equivalent programs.

#### **Opportunities**

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Event: U.S. University Fairs (IIE Fairs)  
 Dates: October 31 – November 3, 2005  
 URL: [www.iiehongkong.org/fairs.htm](http://www.iiehongkong.org/fairs.htm)

#### **Resources**

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CS Japan Contact: Mieko Muto (Tokyo)

[Mieko.Muto@mail.doc.gov](mailto:Mieko.Muto@mail.doc.gov)

A market report on "Study USA Market" is available through the USEAC office nearest to you.

#### **Telecommunications Equipment (TEL)**

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<i>(millions of U.S. \$)</i>	2002	2003	2004 (estimated)
Total Market Size	20,333	24,575	24,618
Total Local Production	21,297	26,248	3,098
Total Exports	4,093	4,444	4,351
Total Imports	3,129	2,770	25,871
Imports from the U.S.	599	381	398

*(Source: Communications and Information Network Association of Japan for 2002 and 2003; unofficial US&FCS estimates for 2004)*

Under the Government of Japan's "e-Japan" strategy, which aims to make Japan "the world's most advanced IT nation" by 2005, Japan has established an impressive broadband network nationwide. According to the Ministry of Internal Affairs and Communications (MIC), as of August 2004, there were 16.9 million households with broadband connections, with roughly 12.6 million using ADSL, 2.7 million utilizing cable, and another 1.6 million households gaining access via Fiber-To-The-Home (FTTH). FTTH growth has been most impressive, with a 700% increase in users since 2001.

The primary telecommunications manufacturers association, the Communications and Information Network Association of Japan (CIAJ), has about 200 members including leading Japanese manufacturers such as NEC, Fujitsu, Oki, and Hitachi. Most major European and North American telecom equipment suppliers also have offices in Japan, including Avaya, Cisco, Lucent and Nortel.

Japan's telecom equipment market is very competitive with world-class domestic manufacturers willing to engage in aggressive price competition. Even so, Japan remains a strong market for telecommunications network equipment including "last mile" solutions. Japan's 16.9 million broadband subscribers in Japan make it the second largest in the world.

### **Best Prospects/Services**

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Carrier/enterprise products (FTTH, FWA, Router/Switch, WDM/DWDM/CWDM); wireless products; voice, DV and HD over IP; network security; IP telephones and load balancers.

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NetWorld+Interop 2005 Tokyo  
June 8-10, 2005

<http://www.interop.jp/english/index.html>

### **Resources**

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CS Japan Contact: Manabu Inoue (Tokyo)

[Manabu.Inoue@mail.doc.gov](mailto:Manabu.Inoue@mail.doc.gov)

### **Building Products (BLD)**

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<i>(millions of U.S. \$)</i>	2002	2003	2004 (estimated)
Total Market Size	106,582	110,690	120,227
Total Local Production	98,108	101,809	110,444
Total Exports	810	1,198	1,312
Total Imports	9,284	10,079	11,096
Imports from the U.S.	956	968	1,044

*(Note: The above statistics include residential and commercial building products and are unofficial estimates. The exchange rates are 125 yen/US\$ for 2002, 116 yen for 2003, and 108 yen for 2004.)*

The Japanese residential and commercial building products market has been declining for the last several years as a result of a prolonged economic slump. However, the market decline may stop since the Japanese economy shows sign of recovery. The overall Japanese economy is expected to grow and the Japanese building products market is also expected to grow again in 2004.

Total housing starts in Japan were 1.4–1.6 million units from 1992 to 1997. However, from 1998 to 2000, housing starts declined to the 1.2 million level and declined further to 1.17 million in 2001, and stabilized in the 1.15–1.16 million ranges in 2002 and 2003. Although Japan's housing starts declined, it still has the second largest housing starts among developed countries. Over the long term, housing starts may decline to 1 million units by 2010 and 700,000 units by 2020 due to declining birth rates and lowered incomes. On the other hand, the Japanese home improvement market is expected to grow significantly over the next ten years. This is because the average life span of houses has lengthened; resulting in more money being spent on maintaining and improving existing houses.

Major exporters competing with the United States are: China, Canada, the countries of East Asia and Scandinavia. Since many Japanese companies are not all that familiar with imported building products, it is important for manufacturers and exporters to provide information on how to use their products, as well as paying close attention to after sales service.

#### **Best Prospects/Services**

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Wood windows and doors, vinyl windows, wood flooring, kitchen and bathroom faucets, and kitchen cabinets have good prospects in the Japanese residential building products market.

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(Insert text here)

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#### **CS Japan Contacts:**

Residential Building Products (Osaka)  
Commercial Building Products (Tokyo)

[Kazuhisa.Takabatake@mail.doc.gov](mailto:Kazuhisa.Takabatake@mail.doc.gov)  
[Koji.Sudo@mail.doc.gov](mailto:Koji.Sudo@mail.doc.gov)

Japan Home & Building Show (<http://www.jma.or.jp/jhbs/>) is organized by the Japan Management Association (JMA) and it is one of the USDOC Certified trade shows. CS Japan and JMA will co-organize a USA Pavilion in the 2005 show from 11/8 to 11/11, 2005. For further details, please contact [Kazuhisa.Takabatake@mail.doc.gov](mailto:Kazuhisa.Takabatake@mail.doc.gov).

#### Building Materials/Housing Mailing List

CS Osaka-Kobe sends "CS Market Research" reports on the Japanese housing market to U.S. companies by e-mail. To be placed on our broadcast e-mail lists, please register at <http://www.buyusa.gov/japan/en/mailing.html>.

#### Useful Websites:

Japanese Ministry of Land Infrastructure and Transport (MLIT)

<http://www.mlit.go.jp/english/index.html>

Building Center of Japan (BCJ)

<http://www.bcj.or.jp/src/soug-e02.html>

JETRO (Japan External Trade Organization) Imported Housing Information Site

<http://www.jetro.go.jp/ip/e/housing/index.html>

Evergreen Building Products Association

<http://www.ep.org/>

CS Japan's Website of "Residential Building Products, Housing and Interior Textiles"

[http://www.buyusa.gov/japan/en/housing\\_textiles.html](http://www.buyusa.gov/japan/en/housing_textiles.html)

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U.S. exporters seeking general export information/assistance or country-specific commercial information should consult with their nearest **Export Assistance Center** or the **U.S. Department of Commerce's Trade Information Center** at **(800) USA-TRADE**, or go to the following website: <http://www.export.gov>.

To the best of our knowledge, the information contained in this report is accurate as of the date published. However, **The Department of Commerce** does not take responsibility for actions readers may take based on the information contained herein. Readers should always conduct their own due diligence before entering into business ventures or other commercial arrangements. **The Department of Commerce** can assist companies in these endeavors.

## Chapter 5: Trade Regulations and Standards

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### Import Tariffs

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According to the Japan Tariff Association, the average applied tariff in Japan is one of the lowest in the world. In addition, import duties on many agricultural items continue to decrease, and tariffs in many major sectors, such as autos and auto parts, software, computers, and industrial machinery are zero. However, certain products including leather goods, certain processed foods and some manufactured goods have relatively high tariff rates.

The Customs and Tariff Bureau of Japan's Ministry of Finance administer tariffs. As a member of the Harmonized System Convention, Japan shares the same trade classification system as the United States (limited to six-digit code). Japan's tariff schedule has four columns of applicable rates: general, WTO, preferential, and temporary. Goods from the United States are charged WTO rates unless a lesser "temporary" rate exists. Japan's preferential system of tariffs grants lower or duty-free rates to products imported from developing countries.

A simplified tariff system for low-value imported freight valued at less than 100,000 yen, such as small packages for personal imports, simplifies determination of tariff rates. This system also eliminates the extra time necessary to classify the product and its precise value, and thereby minimizes customs brokers' handling charges. Importers can choose either the normal rate or the simple tariff, which could be higher or lower. Japanese Customs can provide an advance ruling on tariff classification and duty rates.

### Trade Barriers

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While tariffs are generally low, Japan does have barriers that impede or delay the importation of foreign products into Japan. Although competition, U.S. and other foreign government pressure, as well as other factors have lessened the impact of these impediments, U.S. companies may still encounter non-tariff barriers such as the following:

- standards unique to Japan (formal, informal, de facto, or otherwise);

- a requirement for companies to demonstrate prior experience in Japan, effectively shutting out new entrants in the market;
- official regulations that favor domestically-produced products and discriminate against foreign products;
- licensing powers in the hands of industry associations with limited membership, strong market influence, and the ability to control information and operating without oversight;
- cross stock holding and interconnection of business interests among Japanese companies that disadvantages suppliers outside the business group;
- cartels (both formal and informal) and;
- the cultural importance of personal relationships in Japan and the reluctance to break or modify business relationships.

The tools available to overcome these non-tariff barriers depend on the industry, the product or service's competitiveness, and the creativity and determination of the firm's management. In addition, it is important to note that these non-tariff barriers exist in a highly competitive market — Japan is a large and sophisticated market, and the competition can be fierce. A fair number of companies have benefited or failed simply as a result of timing and general economic conditions. However, the vast majority of successful foreign companies have had to evaluate and adjust their initial market entry strategy as their understanding of the market and their ability to adapt to the Japanese market increased.

## Import Requirements and Documentation

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Japan assesses tariff duties on the CIF value at *ad valorem* or specific rates, and in a few cases, charges a combination of both. Japan's Ministry of Finance maintains a website at [http://www.customs.go.jp/index\\_e.htm](http://www.customs.go.jp/index_e.htm) that describes import clearance and customs procedures, and provides contact information and other detailed information in English.

Japanese customs regulations, like those of the United States, can be cumbersome, difficult to understand, and sometimes frustrating, but they are largely mechanical. Nearly all customs difficulties result from first time applications. Japanese customs officials are generally very helpful when it comes to explaining procedures and regulations, and once these are understood and followed, difficulties are usually minor and rare.

Japan prohibits the importation of certain items including narcotics, firearms, counterfeit currency, pornography, and products that violate intellectual property laws. In addition, Japan imposes restrictions on the sale or use of certain products including those related to health such as medical products, pharmaceuticals, agricultural products, chemicals and explosives. For these products, Japanese Customs reviews and evaluates the product for import suitability before shipment to Japan.

Certain items may require a Japanese import license. These include hazardous materials, animals, plants, perishables, and in some cases articles of high value. Import quota items also require an import license, usually valid for four months from the date of issuance. Other necessary documents for U.S. Exporters may include an Import Declaration Form (Customs Form C-5020) and a certificate of origin if the goods are entitled to favorable duty treatment determined by preferential or WTO rates. In practice, shipments from the United States are routinely assessed using WTO or "temporary" rates without a certificate of origin. Any additional documents necessary as proof of compliance with relevant Japanese laws, standards, and regulations at the time of import may also apply.

Documents required for customs clearance in Japan include standard shipping documents such as a commercial invoice, packing list, and an original and signed bill of lading, or, if shipped by air, an air waybill. Air shipments of values greater than ¥100,000 must also include a commercial invoice. The commercial invoice should be as descriptive as possible on each item in the shipment. The packing list should include the exact contents of each container, the gross and net weights of each package, and all container measurements using metric sizes.

#### **U.S. Export Controls**

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As an active member of the Wassenaar Arrangement as well as various international export control regimes, Japan enjoys the least restrictive treatment under U.S. export control law. In response to the threat from global terrorists, the Japanese government implemented "catch-all" controls to prevent Japanese firms from exporting goods and technologies that may be related in some way to the development of weapons of mass destruction. At the same time, Japanese firms are engaged in business activities with countries that the United States currently has embargoes against. As such, U.S. exporters are encouraged to conduct thorough research and background checks pertaining to any potential sale of controlled or sensitive items, especially with an eye towards potential transshipment through Japan. For the latest in U.S. export and re-export control regulations, please contact the Department of Commerce Bureau of Industry and Security (BIS) at <http://www.bis.doc.gov/>. For defense-related articles, contact the Department of State Office of Defense Trade Controls at <http://www.pmdtc.org/>. For current U.S. embargo information, contact the Department of Treasury Office of Foreign Assets Control at:

<http://www.treas.gov/offices/enforcement/ofac/>.

#### **Temporary Entry**

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Japan is a member of the International Convention to Facilitate the Importation of Commercial Samples and Advertising Materials under the ATA *Carnet* System. Use of a *carnet* allows goods such as commercial and exhibition samples, professional equipment, musical instruments and television cameras to be carried or sent temporarily into a foreign country without paying duties or posting bonds. A *carnet* should be arranged for in advance by contacting a local office of the United States Council for International Business (<http://www.uscib.org/>) or its New York office by phone (212-354-4480) or by e-mail ([info@uscib.org](mailto:info@uscib.org)).

Advertising materials, including brochures, films and photographs, may enter Japan duty free. Articles intended for display but not for sale at trade fairs and similar events are also permitted to enter duty free in Japan only when the fair/event is held at a bonded exhibition site. These bonded articles must be re-exported after the event, or stored at a bonded facility. A commercial invoice for these goods should be marked “no commercial value, customs purposes only” and “these goods are for exhibition and are to be returned after conclusion of the exhibition.” It is also important to identify the name of the trade show or exhibition site, including exhibition booth number (if known), on shipping documents.

## **Labeling and Marking Requirements**

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Correct packing, marking, and labeling are critical to smooth customs clearance in Japan. Straw packing materials are prohibited. As noted above, the Japanese Measurement Law requires that all imported products and shipping documents show metric weights and measures. For most products there is no requirement for country of origin labeling; however, some categories such as beverages and foods do require such labeling. However, if labels indicating origin are determined to be false or misleading, the labels must be removed or corrected. False or misleading labels which display the names of countries, regions or flags other than the country of origin, and/or names of manufacturers or designers outside the country of origin are not permissible.

Items that are required by Japanese law to bear labels cover four product categories: textiles, electrical appliances and apparatuses, plastic products and miscellaneous household/consumer goods. Because all these regulations apply specifically to individual products, it is important to work with a prospective agent/importer to ensure your product meets the requirements, if applicable. In general, most labeling laws are not required at the customs clearance stage, but at the point of sale. Consequently, it is most common for Japanese importers to affix a label before or after clearing customs.

## **Prohibited and Restricted Imports**

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Japan strictly prohibits entry of narcotics and related utensils, firearms, firearm parts and ammunition, counterfeit or imitation money, obscene materials, or goods that violate intellectual property rights. The use of chemicals and other additives in foods and cosmetics is severely restricted by regulations that follow a “positive list” approach. Restricted items include but are not limited to certain agricultural and meat products, endangered species and products such as ivory, animal parts and fur whose international trade is banned by international treaty, and more than two months’ supply of medicines and cosmetics for personal use.

## **Special Import Provisions**

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Japan places few formal barriers on imported goods and its average tariff rates are among the lowest in the world, in line with other industrialized nations. Nevertheless, tariff rates on many imported agricultural products remain high. Moreover, many imports face a wide and complex range of standards, certifications, and other informal and technical barriers, including health and sanitary regulations. Thus, the import process is at times slow and difficult.

In response to complaints from trading partners that Japan discourages the consumption of foreign products, years ago the Government of Japan launched a number of programs to help foreign companies export to Japan. The Japan External Trade Organization (JETRO), the Manufactured Imports Promotion Organization (MIPRO), and Japan's Ministry of Economy, Trade and Industry (METI) administer these programs. Assistance available includes low interest loans to encourage imports, assistance in finding Japanese business partners, market research, export study programs, and the provision of free temporary office space in six Japanese cities.

Emphasis has recently been switching from import promotion to the promotion of investment into Japan. For example, JETRO's long-term Senior Trade Advisors, initially dispatched to U.S. state governments to offer advice on exporting to Japan, now are also providing investment advice. JETRO still organizes "study tours" to Japan for U.S. business people to better understand the Japanese market, and operates Business Support Centers in Tokyo, Yokohama, Nagoya, Osaka, Kobe, and Fukuoka. JETRO also publishes numerous market research and trade facilitation information, maintains business-matchmaking databases, organizes import fairs in Japan, and provides business counseling. Information about JETRO and its programs is available at <http://www.jetro.go.jp/>.

#### **Customs Contact Information**

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Ministry of Finance  
3-1-1 Kasumigaseki, Chiyoda-ku  
Tokyo 100-8940  
Japan  
Phone: +81/3/3581-4111  
<http://www.mof.go.jp/english/tariff/tariff.htm>

Customs Counselors System in Japan  
Tokyo Headquarters  
Phone: +81/3/3529-0700  
[http://www.customs.go.jp/zeikan/seido/index\\_e.htm](http://www.customs.go.jp/zeikan/seido/index_e.htm)

Japan Tariff Association  
Chibiki 2nd Bldg., 8F  
4-7-8 Kojimachi, Chiyoda-ku  
Tokyo 102-0083  
Japan  
Phone: + 81/3/3263-7221  
Fax: + 81/3/3263-7972  
<http://www.kanzei.or.jp/english/>

APEC Tariff Database  
<http://www.apectariff.org/>

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Many domestic and imported products alike are subject to product testing and cannot be sold in Japan without certification of compliance with prescribed standards. Knowledge of, and adherence to, these standards and their testing procedures can be the key to making or breaking a sale. Product requirements in Japan fall into two categories: technical regulations (or mandatory standards) and non-mandatory voluntary standards. Compliance with regulations and standards is also governed by a certification system in which inspection results determine whether or not approval (certification/quality mark) is granted. Approval is generally required to sell a product or even display it in a trade event; unapproved medical equipment may be displayed if accompanied by a sign indicating that the product is not yet approved for sale. To affix a mandatory quality mark or a voluntary quality mark requires prior product type approval and possibly factory inspections for quality control assessment. Regulated products must bear the appropriate mandatory mark when shipped to Japan in order to clear Japanese Customs. Regulations may apply not only to the product itself, but also to packaging, marking or labeling requirements, testing, transportation and storage, and installation. Compliance with "voluntary" standards and obtaining "voluntary" marks of approval can greatly enhance a product's sales potential and help win Japanese consumer acceptance.

There are two ongoing trends in Japan regarding standards. One is a move toward reform of such standards, and the other is a move toward bringing them into harmony with prevailing international standards. While reform is underway, a long list of laws containing mandatory standards remain on the books and most have not been translated into English. Therefore, it is important that a Japanese agent or partner be fully aware of the wide variety of legislation that could affect the sale of the exported product in Japan. Major laws stipulating standards that apply to products in Japan include the following:

- Electrical Appliance and Material Control Law
- Consumer Product Safety Law
- Gas Utility Industry Law
- Food Sanitation Law
- Pharmaceutical Affairs Law
- Road Vehicles Law
- Building Standards Law

## Standards Organizations

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The Japan Industrial Standards Committee (JISC) plays a central role in standards activities in Japan (<http://www.jisc.go.jp/eng/index.html>). Its mission

consists of four elements: (1) establishment and maintenance of Japan Industrial Standards (JIS), (2) administration of accreditation and certification, (3) participation in international standards activities, and (4) development of measurement standards and technical infrastructure for standardization. JISC publishes plans each month for the preparation of new and revised JIS drafts on its website:

<http://www.jisc.go.jp/eng/jis-act/drafts-preparation.html>.

Existing JIS standards are reviewed and revised every 5 years. Once a new or revised draft JIS standard has been prepared, JISC posts these draft standards for a sixty-day public comment period: see <http://www.jisc.go.jp/app/pager>. The JISC website also provides information regarding how foreign entities may participate in the JIS drafting process.

The "voluntary" JIS mark, administered by the Ministry of Economy, Trade, and Industry (METI), applies to nearly 600 different industrial products and consists of over 8,500 standards. Adherence to JIS is also an important determinant for companies competing on bids in the Japanese government procurement process. Products that comply with these standards will be given preferential treatment in procurement decisions under Japan's Industrial Standardization Law. JIS covers all industrial products except for those products regulated by specific national laws or for which other standard systems apply (e.g., the Pharmaceutical Affairs Law and Japan Agricultural Standards).

The Japan Agricultural Standards (JAS) mark is another "voluntary" but widely used product quality and labeling mark. JAS applies to beverages, processed foods, forest products, agricultural commodities, livestock products, oils and fats, products of the fishing industry, and processed goods made from agricultural, forestry, and fishing industry raw materials. Specific JAS marks exist for various types of plywood, paneling, flooring boards, lumber, and timber. The JAS marking system is administered by Japan's Ministry of Agriculture, Forestry and Fisheries (MAFF). Japan's Ministry of Health, Labor and Welfare (MHLW) administers separate mandatory standards for quality labeling of processed foods and beverages.

## **Conformity Assessment**

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The Japan Accreditation System for Product Certification Bodies of JIS Mark (JASC) is an accreditation program defined by the JIS Law, and operated by the JASC Office in METI. JASC accredits product certification bodies in the private sector and allows them to certify companies so that they may place the JIS Mark on their products. A list of Japanese and foreign organizations accredited by JASC as "JIS mark" certification bodies is available at the JISC website (<http://www.jisc.go.jp/eng/jis-mark/acc-insp-body.html>). This list provides contact information as well as the JIS field of certification for these testing organizations. The two major non-governmental accreditation bodies in Japan are IAJapan (within the quasi-governmental National Institute of Technology and Evaluation) and the Japan Accreditation Board for Conformity Assessment (JAB). IAJapan operates several accreditation programs including the Japan National Laboratory Accreditation System (JNLA) and the Japan Calibration Service System (JCSS).

IAJapan's website (<http://www.nite.go.jp/asse/iajapan/en/index.html>) provides lists of laboratories accredited under its programs, and laboratories accredited by JAB can be found at:

[http://www.jab.or.jp/cgi-bin/jab\\_exam\\_proof.cgi?page=1&eng=1](http://www.jab.or.jp/cgi-bin/jab_exam_proof.cgi?page=1&eng=1).

## **Product Certification**

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A limited number of testing laboratories in the United States not listed on the websites noted above in "Conformity Assessment" have also been designated by various Japanese government agencies to test and approve U.S. products for compliance with Japanese mandatory certification systems and laws. Products not covered by these arrangements must be tested and approved by Japanese testing labs before these products can be sold in Japan.

## **Accreditation**

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Please see the "Conformity Assessment" section above.

## **Publication of Technical Regulations**

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Each Japanese ministry posts draft regulations for public comment on their respective websites. It should be noted that although U.S. entities may submit comments, the amount of time given for submissions varies widely and most postings are made only in Japanese. To assist U.S. entities that wish to participate in the Japanese regulatory process, CS Tokyo prepares a weekly summary translation of selected public comment announcements by Japanese government agencies available at:

<http://www.buyusa.gov/japan/en/mac.html>.

Finalized technical regulations and standards are published in Japan's national gazette known as the "kanpo" (<http://kanpou.npb.go.jp/>, Japanese only).

## **Labeling and Marking**

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As noted above, Japanese laws requiring product certification and labeling are numerous. A good reference for information on these requirements is JETRO's Handbook for Industrial Product Import Regulations available at:

[http://www.jetro.go.jp/se/e/standards\\_regulation/index.html](http://www.jetro.go.jp/se/e/standards_regulation/index.html).

## **Trade Agreements**

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Japan concluded an FTA with Singapore in 2002, and finalized a second FTA with Mexico in 2004. Japan is discussing possible FTA's with other nations including Thailand, Indonesia, Malaysia, the Republic of Korea, and the Philippines. Agricultural issues, however, have hindered Japan's efforts to conclude FTA's. Japan is a member of APEC, which has established a goal of APEC-wide free trade and investment for developed economy members by 2010, and for all APEC member economies by 2020.

Japanese import clearance and customs procedures:

Japanese Ministry of Finance  
[http://www.customs.go.jp/index\\_e.htm](http://www.customs.go.jp/index_e.htm)

Japanese Customs:

Japanese Ministry of Finance  
<http://www.mof.go.jp/english/tariff/tariff.htm>

Customs Counselors System in Japan  
[http://www.customs.go.jp/zeikan/seido/index\\_e.htm](http://www.customs.go.jp/zeikan/seido/index_e.htm)

Japan Tariff Association  
<http://www.kanzei.or.jp/english/>

APEC Tariff Database  
<http://www.apectariff.org/>

U.S. export control procedures:

U.S. Department of Commerce  
Bureau of Industry and Security (BIS)  
<http://www.bis.doc.gov/>

(for defense-related articles)  
U.S. Department of State  
Office of Defense Trade Controls  
<http://www.pmdtc.org/>

(for current U.S. embargo information)  
U.S. Department of the Treasury  
Office of Foreign Assets Control  
<http://www.treas.gov/offices/enforcement/ofac/>

Obtaining a temporary-entry *carnet*:

United States Council for International Business  
Local Offices — <http://www.uscib.org/>  
N.Y. Office — [info@uscib.org](mailto:info@uscib.org)  
  
<http://www.atacarnet.com/>

Standards:

Japan Industrial Standards Committee (JISC)  
<http://www.jisc.go.jp/eng/index.html>

International Accreditation Japan (IAJapan)

<http://www.nite.go.jp/asse/iajapan/en/index.html>

Japan Accreditation Board for Conformity Assessment (JAB)  
[http://www.jab.or.jp/cgi-bin/jab\\_exam\\_proof.cgi?page=1&eng=1](http://www.jab.or.jp/cgi-bin/jab_exam_proof.cgi?page=1&eng=1)

Japanese government regulations:

(for public comment updates)  
U.S. Commercial Service  
American Embassy Tokyo  
<http://www.buyusa.gov/japan/en/mac.html>.

(for finalized technical regulations and standards)  
Japan National Gazette ("Kanpo")  
<http://kanpou.npb.go.jp/> (Japanese only)

Labeling and marking requirements:

Japan External Trade Organization (JETRO)  
[http://www.jetro.go.jp/se/e/standards\\_regulation/index.html](http://www.jetro.go.jp/se/e/standards_regulation/index.html)

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U.S. exporters seeking general export information/assistance or country-specific commercial information should consult with their nearest **Export Assistance Center** or the **U.S. Department of Commerce's Trade Information Center** at **(800) USA-TRADE**, or go to the following website: <http://www.export.gov>.

To the best of our knowledge, the information contained in this report is accurate as of the date published. However, **The Department of Commerce** does not take responsibility for actions readers may take based on the information contained herein. Readers should always conduct their own due diligence before entering into business ventures or other commercial arrangements. **The Department of Commerce** can assist companies in these endeavors.

## Chapter 6: Investment Climate

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- [Capital Outflow Policy: Net Exporter of Capital](#)
- [Foreign Direct Investment Statistics: Steady Increase in Japan's FDI Stock in CY2003](#)
- [Web Resources](#)

### Openness To Foreign Investment: Few Formal Restrictions [Return to top](#)

Japan, the world's second-largest economy, is an immense potential market for U.S. foreign direct investment (FDI). The Government of Japan (GOJ) imposes few formal restrictions on FDI in Japan, and has removed or liberalized most legal restrictions that apply to specific economic sectors. The government does not impose export-balancing requirements or other trade-related FDI measures on firms seeking to invest in Japan. Risks associated with investment in many other countries, such as expropriation and nationalization, are not an issue in Japan. Moreover, Prime Minister Koizumi has pledged to double the amount of FDI in Japan over the next five years.

The current low-growth environment in Japan has created many new opportunities for FDI in this extremely rich and broad market:

- Prices are down to their lowest point in a decade.
- More Japanese companies are actively looking for foreign partners to inject needed capital and know-how.
- There are distressed assets that can be profitably acquired and returned to economic viability.

The challenges facing foreign investors seeking to establish or enhance their presence in Japan — many of the most important of which are matters of private business practice rather than of government regulation — include:

- A high overall cost structure that makes market entry, exit, and expansion expensive;
- Cultural and linguistic challenges to doing business;

- Corporate practices and market rules that inhibit foreign acquisition of Japanese firms, such as insufficient financial disclosure practices, cross-holding of shares among companies belonging to the same business grouping (*keiretsu*), the low proportion of publicly traded common stock relative to total capital in many companies, and public attitudes about foreign takeovers;
- Exclusive buyer-supplier networks and alliances are still maintained by some *keiretsu*, which limit competition from foreign firms and domestic newcomers;
- Laws and regulations that directly or indirectly restrict the establishment of business facilities and hinder market access for foreign products, services, and FDI.
- Labor practices which inhibit labor mobility, repress productivity, and negatively impact development of skills.

All of these issues are currently being addressed in government-to-government talks, and progress is being made in many areas.

FDI in Japan has soared since the mid 1990s. In fact, FDI stock in Japan has more than tripled (on a yen basis) in the period 1998-2003, from 3.0 trillion yen at the end of 1998 to 9.6 trillion yen at the end of 2003. Reforms in the financial, communications, and distribution sectors have encouraged foreign investment into these sectors. Improvements in corporate laws, bankruptcy laws, and accounting principles have also helped attract foreign capital to Japanese companies. In CY 2003, FDI toward Japan slowed to \$6.3 billion from \$9.2 billion in CY 2002, but this followed continued strong increases in FDI recorded over the last several years. Also given a rise in yen's value relative to the U.S. dollar in CY 2003 (115.93 yen on the average, compared with 125.31 yen in CY 2002), last year's FDI results were reasonably positive.

However, Japan continues to host the smallest amount of inward foreign investment as a proportion of total output of any major OECD nation. Foreign participation in mergers and acquisitions (M&A), which account for some 80% of FDI in other OECD countries, although on an upward trend, also lags in Japan. Meanwhile, Japan continues to run an imbalance between its inward and overseas FDI (see Table 1 below). Japan's direct investment abroad declined in CY03 to \$28.8 billion, from the \$32.3 billion level of CY 02. Japan's relative lack of foreign investment also acts as a restraint on the expansion of imports.

In the past four years, ongoing economic restructuring (due in large part to the more competitive financial sector and greater emphasis on rate of return), and changes in Japan's financial markets contributed to growth in foreign direct investment in Japan in non-financial sectors. Distribution affiliations, joint ventures, and mergers and acquisitions involving foreign and Japanese financial services providers have accelerated rapidly, as foreign firms take advantage of business opportunities being created in Japan's financial sector as a result of the Japanese government's "Big Bang" and the U.S. government's deregulation initiative with Japan. Japanese financial firms have started to look overseas for assistance in the form of new products, technologies and capital to meet these challenges. In addition, foreign firms have stepped in to buy the assets of domestic financial services firms that have recently failed. At the same time, structural impediments to foreign investment remain, and it is not certain that inward foreign investment flows will continue to accelerate.



Acknowledging that FDI in Japan lags far behind that of other industrialized economies, the GOJ has in recent years taken some welcome steps to address investment-related problems. Of most recent significance is the GOJ initiative to revise the Commercial Code. Other legislation reforming bankruptcy procedures has provided M&A opportunities, as distressed Japanese companies are able to seek partners or buyouts. The Ministry of Economy, Trade and Industry (METI) in particular is taking seriously the challenge of attracting greater foreign investment to Japan. At the regional level, a number of prefectural and city governments are intensifying their efforts to attract foreign investors.

### **Liberalization of Investment Restrictions**

Japan has gradually eliminated most of the formal restrictions governing its FDI regime. In 1991, the GOJ amended the Foreign Exchange and Foreign Trade Control Law (which also controls foreign investment) to replace the long-standing "prior notification" requirement for all FDI with an "*ex post facto* notification" requirement for investment in non-restricted industries. "Prior notification" (and thus case-by-case approval) is now required only for investment in certain restricted sectors, including agriculture, forestry, petroleum, electrical/gas/water utilities, aerospace, telecommunications, and leather manufacturing. Administrative approval for foreign investment in some of these sectors is quite certain, while in other sectors it is likely to be subject to greater scrutiny based on "national sovereignty" or national security concerns.

U.S. investment has become increasingly common in some traditionally restricted sectors, particularly in the petroleum and telecommunications industries. The only legal restriction on foreign ownership in Japan's telecommunications sector applies to Nippon Telegraph and Telephone (NTT): foreign investment in NTT, which is 40.8-percent owned by the government of Japan, is limited to one third by the NTT Law. In the fall of 2004, the Carlyle Group acquired KDDI's DDI pocket (a PHS phone operator) shares for 200 billion yen, making that the largest foreign investment in Japan's telecommunications market. Japan's Radio Law and Broadcasting Law limit foreign investment in broadcasters to 20 percent, or at one third for a broadcasters categorized as "facility-supplying." This limit does not apply to communications satellite facility owners and program suppliers or to cable television operators.

Several sections of the Japanese Antimonopoly Law (AML) are relevant to FDI. For example, chapter four of the AML includes extensive antitrust provisions pertaining to international contract notification (section 6), stockholding (sections 10, 14), interlocking corporate directorates (section 13), mergers (section 15), and acquisitions (section 16). The stated purpose of these sections is to restrict any stockholding, management, joint venture, and M&A activities that constitute unreasonable restraints on competition or involve unfair trade practices. These provisions are not intended to discriminate against foreign companies or to discourage FDI.

### **Limitations on Facility Development, and Availability of Investment Real Estate**

While the price of real estate has fallen for 12 consecutive years (since 1992), potential foreign investors still find that high prices of commercial office space an obstacle to investment in Japan. Urban land prices, (although less than half the 1991 high) remain expensive. Lack of information on land prices and ownership also impedes foreign and domestic investors, by making it harder to assess the real asset value of potential

business partners or acquisition targets.

Revisions to the Securities Investment Trust Law, enacted in November, 2000, lifted the ban on real estate investment trusts (REITs) to permit marketing of mutual funds that invest in property rights. Although growth has been slow, REITs are already increasing demand for transparency and accurate pricing in the real estate market.

Aiming to increase the liquidity of Japanese real estate markets, over the recent years the government has progressively lowered capital gains, registration, and license taxes on real estate. In fiscal 2003, land transaction tax rates for licensing and registration were reduced from 5 percent to 1 percent (they will increase to 2 percent from 2006). Inheritance and gift taxes were also reduced to promote transfer of land and other assets from the older to the younger generation. More changes in tax policy and accounting standards could increase real estate liquidity, but the market is still hampered by the shortage of legal and accounting professionals, the lack of information on prices and income flows, and taxes that discourage real estate transactions. On March 31, 2001, the Japan Institute of Certified Public Accountants introduced a standard requiring companies to write off substantial losses (50% or more) on real estate inventories acquired for sale or development, further encouraging liquidity in real estate markets.

Japan continues to restrict the development of industrial and commercial facilities in some areas in an attempt to prevent excessive concentration of development in the environs of Tokyo, Osaka, and Nagoya, and also to protect land designated as optimal for agriculture. On the other hand, many prefectural governments outside the largest urban areas will make available property in public industrial parks. Generally speaking, Japan's zoning laws give local Japanese officials and residents considerable discretionary authority to screen almost all aspects of a proposed building. These factors effectively reduce the real estate available for development and often lead to delays in construction and higher building costs.

### **Corporate Tax Treatment**

Local branches of foreign firms are generally taxed only on corporate income derived from within Japan, whereas domestic Japanese corporations are taxed on their worldwide income. Calculation of taxable income and allowable deductions, and payments of the consumption tax (sales tax), are otherwise the same as those for domestic companies, with national treatment for foreign firms. Corporate tax rules classify corporations as either foreign or domestic depending on the location of their "registered office," which may be the same as or a proxy for the place of incorporation. The United States has a tax treaty with Japan that generally allows Japan to tax the business profits of a U.S. resident only to the extent those profits are attributable to a "permanent establishment" in Japan, and in addition provides measures intended to mitigate double taxation. A new bilateral tax treaty between the United States and Japan came into full force in January 2005.

Under the terms of the new bilateral tax treaty, cross-border dividends on listed stock are not subject to source country withholding tax if the parent company owns 50% or more of the foreign subsidiary. Interest on financial transactions payable to a nonresident as well as royalties paid to a foreign licensor are also no longer subject to source country withholding tax.

A special tax measure allows designated inward investors to carry over certain losses for tax purposes for ten years rather than for the normal five years. In JFY96, the scope of losses that qualify for this special measure was expanded. As part of the JFY03 Tax Reform, Japan's effective corporate tax rate, including local taxes, was reduced from 40.87% to 39.54%.

The option of consolidated taxation was made available to corporations since April 1, 2002. Consolidated taxation should facilitate investment and corporate restructuring, because the losses usually expected from a new venture or recently-acquired subsidiary can be charged against the profits of the parent firm or holding company.

## **Investment Incentives**

In Japan, both government and the private sector are increasingly promoting inward FDI. At a meeting in June 2002, the Cabinet established FDI promotion as one of the key strategies for revitalizing the Japanese economy, and resolved to put teeth into the measures needed to attract investment. In a General Policy Speech in January 2003, Prime Minister Koizumi pledged to double the cumulative amount of FDI in the next five years. Following this announcement, in March 2003, the Japan Investment Council (JIC) prepared a report setting out a "Program for Promoting Foreign Direct Investment," which discussed five target sectors and 74 measures. The Japanese Government endorsed these proposals and declared it would promptly implement them. For more details regarding this report, please visit the "Invest Japan" web site at <http://www.investment-japan.net/index.htm>.

Based on this report, the Invest Japan Business Support Center, a one-stop office to provide investment information to foreign companies, was established in the Japan External Trade Organization (JETRO) on May 26, 2003. (More detailed information is available at <http://www.jetro.go.jp/investjapan/>). Furthermore, information desks have been established in all concerned ministries as a center for investment information and support for navigating administrative procedures.

Previous to this, in September 2002, the business sector established the Invest Japan Forum (IJF), composed of top Japanese and foreign managers. In December 2002 the IJF made recommendations for promoting FDI to the Prime Minister and the JIC. Many of these suggestions were incorporated in the IJF's report. The U.S.-Japan Private Sector/Government Commission held on April 14, 2003, also shared the view that the two countries should dramatically increase FDI and follow up on the suggestions made by the IJF.

Local governments are also increasing their efforts to attract foreign capital. Kitakyushu and Kyoto held the Investment Initiative Seminars in April 2004 during which these prefectures introduced their measures to attract foreign capital. In order to support these local government efforts to promote inward FDI, the Japanese Government started a project in FY 2003 called the "Advanced Areas to Promote Foreign Direct Investment." Through this project, JETRO will give special support to local governments that are actively trying to attract foreign capital. In fiscal year 2003, five regions were selected: Osaka/Higashi-Osaka/Ibaraki, Sendai, Hyogo/Kobe, Hiroshima, and Fukuoka/Kita-Kyushu/Shimonoseki.

Another Japanese Government program started in April 2003 is called “Special Zones for Structural Reform.” This program designates certain areas as exempt from a limited number of regulations in order to develop the areas’ special features. These zones are based on ideas developed by local governments and private companies. To date, 386 Special Zones have been approved. Among them is a Special Zone for International Distribution with a 24-hour/365-day customs clearance, which is expected to enhance the environment for FDI. Under the zone program, it is possible to enact other special regulatory exemptions that benefit the investment environment. For instance, zones could potentially be developed allowing corporations to own hospitals, schools, agricultural enterprises and special elderly nursing homes that have been barred to private companies and could introduce special exemptions for visas/resident qualifications to expand the acceptance of foreign engineers, tourists and exchange students.

The Headquarters for the Promotion of Special Zones for Structural Reform will continue to invite ideas on new zones from local governments and private companies. Foreign governments and companies can also submit ideas to the local government. When local governments and private companies join with foreign governments and companies, creative ideas for new special zones may be developed that contribute to attracting inward FDI. Therefore, active involvement of all parties is encouraged.

#### **Conversion and Transfer Policies: Generally Uninhibited**

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All foreign exchange transactions to and from Japan — including transfers of profits and dividends, interest, royalties and fees, repatriation of capital, and repayment of principal — are, in principle, freely permitted unless expressly prohibited. With the April 1998 revision of the Foreign Exchange Law, Japan moved to an ex-post notification system. This means that all foreign exchange transactions (unless specifically prohibited, including certain foreign direct investments, listed in the Appendix) no longer require prior notification or approval. In addition, the law eliminated the authorized foreign exchange bank system, whereby foreign exchange transactions all had to go through certain registered banks. All other restrictions on methods of payment — including netting of settlements — were also removed, enhancing the ability of foreign and Japanese financial firms to offer a fuller range of services in Japan. This has led to lower foreign exchange transaction costs for non-financial firms as well.

Japan is an active partner in the struggle to choke off terrorist financing. In coordination with other OECD members, the GOJ is strengthening due-diligence requirements for financial institutions. A know-your-customer law was passed in 2002. These changes could have an impact on the transfer of funds.

#### **Expropriation and Compensation: Virtually No Risk**

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In the post-war period, the GOJ has not expropriated or nationalized any enterprises, with the exception of the nationalization in 1998 of two large capital-deficient banks and, in 2002, of two small failed regional banks. Expropriation or nationalization of foreign investments is unlikely in the foreseeable future.

There have been no major bilateral investment disputes since 1990, and there are no outstanding expropriation or nationalization cases in Japan. There have been no cases of international binding arbitration of investment disputes between foreign investors and the GOJ since 1952. Japan is a member of the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitration Awards. However, it has long been considered an inhospitable forum for international commercial arbitration. The Japan Commercial Arbitration Association, the only organization that arbitrates international trade and investment-related disputes, had only 63 cases submitted to it between 1998 and 2002. Of these, only 37 went to arbitration.

There are no legal restrictions on access by foreign investors to Japanese lawyers, and significant reforms in laws governing legal services and the judicial system are increasing the ability of foreign investors to obtain adequate legal advice on doing business in Japan – despite some foot-dragging by the Federation of Japanese Bar Associations (*Nichibenren*).

Based on the Program for Promoting Justice System Reform endorsed by the Cabinet in March 2002, the Government of Japan submitted and secured passage of legislation in the 2003 ordinary Diet session to promote cooperation and collaboration between Japanese lawyers (*bengoshi*) and foreign lawyers qualified under Japanese law (*gaiben*). The legislation included the “Bill to Amend the Special Measures Law Concerning the Handling of Legal Business by Foreign Lawyers” that provides for the following amendments (which will come into effect within two years of promulgation of the law based on the Cabinet order):

- a. The elimination of the prohibition on the employment of *bengoshi* by *gaiben*;
- b. The elimination of the regulations on joint enterprises between *gaiben* and *bengoshi*; and
- c. The abolition of legal provisions for specified joint enterprises (*tokutei kyodo jigyo*) and the establishment of joint enterprises between *bengoshi* or *bengoshi* professional corporations (*bengoshi hojin*) and *gaiben* (*gaikokuho kyodo jigyo*).

Enactment of the bill will have the following results:

- a. A *gaikokuho kyodo jigyo* organized as a single law firm or as separate firms will be able to provide integrated legal advice and legal services on any and all matters within the competence of its members;
- b. *Gaiben* and *bengoshi* or *bengoshi hojin* in *gaikokuho kyodo jigyo* will be able to adopt a single law firm name of their choice;
- c. *Gaiben* and *bengoshi* in *gaikokuho kyodo jigyo* will be free to determine the profit allocation among them freely and without restriction;
- d. *Gaiben* will be permitted to hire *bengoshi* to work with them directly or in a *gaikokuho kyodo jigyo* or in a *gaikokuho-jimu-bengoshi jimusho* composed of multiple *gaiben*; and
- e. *Gaiben* and *bengoshi* will continue to be permitted to enter into relationships on an *ad hoc* basis that involve the sharing of profits and expenses.

Another significant step was the establishment of the Judicial Reform Promotion Headquarters on December 1, 2001, based on the Law on Promotion of Judicial Reform.

The Headquarters has developed a reform program, based on the recommendations of the Judicial Reform Council. On March 19, 2002, the Cabinet adopted a program that provides for the following:

- To increase the number of legal professionals, the Ministry of Justice (MOJ) undertook to increase the annual number of persons who pass the Bar Examination to 1,500 by 2004 and to 3,000 by around 2010; and the Headquarters, in cooperation with the Ministry of Education, Culture, Sports, Science and Technology, introduced a new system of law schools, starting in April 2004, and in preparation has developed standards for selecting the universities that will be allowed to establish law schools.
- To reform the arbitration law, the Headquarters submitted legislation to the Diet in mid-January 2003, which will include a major revision of the existing Arbitration Law and improvement of the legal framework for arbitration, including international commercial arbitration.
- To increase the speed and efficiency of civil litigation, the Headquarters and MOJ submitted legislation to the Diet in mid-January 2003 to reduce by half the length of time required to complete court trials through measures to promote efficient scheduling of hearings, increase significantly the number of judges and court personnel, and facilitate litigants' collection of evidence at early stages of litigation.
- The Headquarters and MOJ submitted legislation to the Diet in mid-January 2003 to reduce filing fees for civil litigation.
- To strengthen judicial oversight over administrative agencies, the Headquarters is undertaking a comprehensive study of judicial oversight over administrative agencies, including review of the Administrative Case Litigation Law, and has taken measures to strengthen judicial oversight.
- To make the specialized departments concerning intellectual property rights in both the Tokyo and Osaka District Courts function substantially as "patent courts," the Headquarters and MOJ submitted legislation to the Diet in mid-January 2003.

More generally, Japan's civil courts enforce property and contractual rights, and the courts do not discriminate against foreign investors. However, they are sometimes ill suited for litigation of investment and business disputes. As in many other countries, Japanese courts operate rather slowly. As noted above, the Judicial Reform Promotion Headquarters is enacting a number of changes to speed the conduct of trials.

In addition, the courts lack contempt powers to compel a witness to testify or a party to comply with an injunction, and timely temporary restraining orders and preliminary injunctions are very difficult to obtain. While filing fees for large civil cases were reduced in 1992, they are still based on the amount of the claim, rather than a flat fee. Lawyers usually require large up-front payments from their clients before filing a lawsuit, with a modest contingency fee, if any, at the conclusion of litigation. Contingency fees familiar in the U.S. are relatively uncommon. A losing party can delay execution of a judgment

merely by appealing, and in appeals to the high courts, additional witnesses and other evidence are sometimes allowed.

Courts do have power to encourage mediated settlements, and the courts have a supervised mediation system. Parties can manipulate this system to delay resolution, however, and because judges move frequently, continuity is often lost. As a result, it is very common for companies to settle out of court.

**Performance Requirements and Incentives: None**

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Japan does not maintain a system of performance requirements. Japan also maintains no formal requirements for local management participation or local control in joint ventures or other forms of direct investment, except in restricted sectors.

**Right to Private Ownership and Establishment: Secure for Foreign Business**

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Japan legally maintains the right for foreign and domestic private enterprises to establish and own business enterprises and engage in all forms of remunerative activity.

**Protection of Intellectual Property Rights: Can Be Time-Consuming And Costly**

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Protection of intellectual property rights is an integral part of every successful U.S. exporter's basic market strategy in Japan. It is necessary to file applications to register patents and trademarks in Japan to obtain protection, but prior patent filing in the United States can provide certain advantages if applications are filed promptly in Japan. A U.S. patent or trademark attorney can provide informal advice, but it is necessary to hire a Japanese lawyer or patent practitioner (*bennishi*) registered in Japan to prosecute the patent or trademark application. In conformity with international agreement, Japan maintains a non-formality principle for copyright registration — *i.e.*, registration is not a pre-condition to the establishment of copyright protection. However, the Agency of Cultural Affairs maintains a registry for such matters as date of first publication, date of creation of program works, and assignment of copyright. U.S. copyrights are recognized in Japan by international treaty. U.S.-produced semiconductor chip design-layouts are protected for ten years under a special law if they are registered with the Japanese "Industrial Property Cooperation Center" — a Japanese government-backed public corporation.

Obtaining and protecting patent and trademark rights in Japan can be time-consuming and costly, although patent fees have recently been reduced considerably. While the process to safeguard such rights might seem prohibitive, lack of protection would permit competitors both in and outside of Japan to copy a product or production process. Even when intellectual property rights have been acquired, pirating of technology and designs can occur in Japan, as in other countries. Each company in a trading or licensing agreement should understand clearly what its rights and obligations are with respect to the intellectual property rights owned or acquired by the other. Such a clear understanding helps to create a good rapport based on mutual trust, thereby ensuring the success of the trading or licensing agreement.



## **Patents, Trademarks, Utility Models and Designs**

Unlike U.S. patent law, patents are granted to the first to file an application for a particular invention, rather than to the first to invent. Although Japan accepts filings in English (to be followed by a Japanese translation), companies should ensure that translations of their applications are perfect, as significant negative ramifications may result from translation errors. Prompt filing in Japan is crucial because printed publication of a description of the invention anywhere in the world, or knowledge or use of the invention in Japan, prior to the filing date of the Japanese application, would preclude the grant of a patent on the application. Also, unlike the United States, where examination of patent applications is automatic, an applicant must request examination of his patent application in Japan within three years of filing.

As is true in many countries, all patent applications are published 18 months after filing. If, during the examination, the Japanese Patent Office (JPO) finds no impediment to the grant of a patent for a particular invention, it publishes the patent application in the Patent Public Gazette a second time, including any changes that have been made during the examination. Under a recent amendment to the Patent Law, parties may contest the terms of a patent grant immediately after issuance by the Patent Office (for a period of up to six months), rather than prior to registration as had been the previous practice. The patent is granted and valid for 20 years from the date the application is filed.

It takes an average of 24 months, according to the latest JPO statistics in CY 2002, in Japan from the request for examination of application to First Action. An applicant can request accelerated examination, and efforts by the Patent Office to make the documentation necessary for the preliminary research required to request accelerated examination available electronically are expected to lower the cost of such requests to the applicant. During the examination period, limited effective legal protection exists.

Japan's Trademark Law protects trademarks and service marks. As is the case with patent applications, a resident agent (usually a lawyer or patent agent) must prosecute the trademark application. And as with the processing of patent applications, Japan's trademark registration process can be slow. Any company planning on doing business in Japan should file for trademark registration as early as practicable. Japan is subject to the Madrid Protocol (effective March 14, 2000) and trademarks registered at the WIPO Secretariat will be protected among member countries.

Japan's Utility Model Law also allows registration of utility models, a form of minor patent with a 6-year term of protection, retroactive from the date of application since January 1994. A separate design law allows protection of designs, with a 15-year term of protection from the date registration was made.

## **Unfair Competition and Trade Secrets**

The only protection available for a trademark in Japan prior to registration is under the Japanese Unfair Competition Prevention Law. Under this law, the owner of the mark must demonstrate that the mark is well known in Japan and that consumers will be confused by the use of an identical or similar mark by the unauthorized user. In 1990, Japan enacted amendments to the law that provided some protection from theft of trade secrets, such as know-how, customer lists, sales manuals, and experimental data. The

law, which was amended completely in 1993, also provides for injunctions against wrongful use, acquisition, or disclosure of a trade secret by any person who knew or should have known that the information in question was misappropriated. The judicial process, however, makes the enforcement of rights without loss of trade secrets difficult.

### **Transparency of the Regulatory System: Toward More Openness**

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Over-regulation in Japan continues to restrain economic growth, raise the cost of doing business, restricts competition, impedes market entry and exit, and impede investment. It also raises prices and increases the cost of living for Japanese consumers and for foreign businesses operating in Japan. Typical of highly regulated economies, the Japanese economy is still suffering from misallocation of resources, a lack of investment and a lack of entrepreneurial innovation. In addition to slowing growth, government over-regulation lies at the heart of many market access and competitive problems faced by U.S. companies in Japan.

An essential prerequisite for a vibrant Japanese economy is a regulatory system that is transparent, fair, predictable and accountable. It is important that domestic and foreign firms alike have full access to information and opportunities to participate in the regulatory decision-making process. The Japanese Government made greater transparency a crosscutting theme of its Plan on the Promotion of Regulatory Reform (Cabinet Decision of March, 2004). The systemic measures set out in the Plan could contribute to needed improvements in the transparency and accountability of the Japanese regulatory system. They include the following: wide and effective use of the Public Comment Procedures for Formulating, Amending and Repealing Regulations; the strict enforcement and promotion of the use of the 1994 Administrative Procedure Law; increased transparency of administrative guidance; full and effective implementation of the Law Concerning the Disclosure of Information Retained by Administrative Agencies; expanded use of the "No Action Letter" system; comprehensive and objective evaluation of the regulatory process; and examination of the need, effects, and costs of new proposed and existing regulations.

Building on these measures, the United States in its Regulatory Reform Initiative submissions has recommended that the Japanese Government undertake additional improvements in its regulatory system to support Japan's reform efforts and to ensure universal access to government information and the policymaking process. In particular, Japan needs to make the Public Comment Procedures more effective, to reduce the use of Administrative Guidance, and to encourage greater public participation in the legislative process.

The United States continues to hold bilateral working-level discussions in an effort to encourage the Japanese to promote deregulation, competition policy, and administrative reform measures that could help revive the Japanese economy, increase imports and foreign direct investment into Japan. The reader should consult the National Trade Estimate Report on Foreign Trade Barriers, issued by the Office of the U.S. Trade Representative (USTR) on March 31, 2004, for a detailed description of Japan's regulatory regime as it affects foreign firms (both exporters and investors).

Japan maintains no formal restrictions on inward portfolio investment, and in fact foreign capital occupies an increasingly important place in Japanese capital markets. Informal restrictions on management participation of foreign shareholders limit the attractiveness of Japan's equity market to foreign investors, although some firms have taken steps to facilitate exercise of shareholder rights by foreign investors, such as permitting electronic proxy voting.

### Environment for Mergers and Acquisitions

Japan's aversion to M&A activity is starting to fade, accelerated by the unwinding of extensive corporate cross-shareholding brought about by implementation of improved accounting standards and new government mandates that banks divest cross-held shares above a set level of holdings.

Friendly transfer of wholly-owned and majority-owned subsidiaries remains a more common form of M&A in Japan. Similarly, there are signs that owner-operated unlisted firms -- which traditionally would only sell out as a last resort before bankruptcy -- are becoming more amenable to acquisition by foreigners. Particularly in the more modern, more service-oriented sectors of the economy, purchase by foreigners is becoming less of a badge of shame than in years past.

Still, there remain a number of key factors limiting greater entry into the Japanese market through M&A with unlisted firms -- including tax policy, weak accounting and disclosure practices, Japan's underdeveloped OTC stock market (which if more developed would reduce the risks involved in M&A), lack of readily available information on firms that might be acquired, and the relative shortage of M&A "infrastructure" in the form of specialists skilled in making matches and structuring M&A deals.

Two new exchanges geared towards encouraging start-ups and venture capital investments opened in Tokyo in 1999, but only one remains. The Tokyo Stock Exchange "Mothers" Exchange, with less-stringent listing criteria for emerging companies, has relatively few listed firms and suffers from lack of liquidity.

### Commercial Code Revisions

A major revision of the Commercial Code is now underway. In January 2001, new laws designed to facilitate procedures for spin-offs to establish new firms and to transfer divisions from one company to another went into effect. Important legislation was passed in the 2002 Diet that has significantly increased the flexibility of capital structure and improve corporate governance:

### Flexibility of Capital Structure

As detailed in the document "Japanese Corporate Law: Drastic Changes in 2000-2001" issued by the Ministry of Justice on April 16, 2002, the Diet has enacted a number of revisions to the Commercial Code to improve the methods through which companies may obtain financing and services and to provide incentives to managers and employees, including amendments:

1. Relaxing the restrictions on the size of units of stocks, including abolishing the ¥50,000 per share minimum issue price and restrictions on the minimum net assets per share at the time of stock splits;
2. Authorizing the issuance of tracking stock;
3. Eliminating the prohibition on the issuance of non-voting common stock, and increasing the limit on the total number of non-voting shares that may be issued from one-third of the total issued shares to one-half of total issued shares;
4. Substantially liberalizing restrictions on issuance of stock options, including abolishing restrictions on the recipients of stock options, maximum number of stock options that may be granted and the permissible exercise period;
5. Permitting classes of shareholders of closely held corporations that have issued more than one class of shares to elect a specified number or percentage of board members;
6. Eliminating the prohibition against transfers of new subscription rights; and
7. Eliminating the requirement for court-supervised inspection procedure for valuation of in-kind capital contributions, allowing as an alternative certifications by professionals such as lawyers, accountants or tax accountants.

### **Improvements in Corporate Governance**

In addition, the Diet has enacted a number of revisions to the Commercial Code and the Industrial Revitalization Law to ensure efficient corporate governance, including amendments:

1. Providing publicly traded companies the option of adopting U.S.-style corporate governance system instead of complying with the statutory auditor (*kansayaku*) requirement. This option requires the appointment of executive officers and the establishment of a board committee system in which at least the audit, nomination and compensation committees would be composed of a majority or more of outside directors. The new measure is, however, under the Industrial Revitalization Law, which requires companies to submit their company revitalization plans to METI Minister to obtain Minister's authorization. MOJ plans to amend the Commercial Code to make the new measure available for companies in general within the next two years; and
2. Permitting companies to use the Internet or other electronic means to provide notices of shareholders' meetings and other similar communications to shareholders upon individual consent, and permitting shareholders to exercise their voting rights through the use of electronic devices. In addition, companies are permitted to meet their mandatory disclosure requirements for balance sheets (and profit and loss statements) by making the full text available for 5 years in an electronic format.

## **Cross-shareholding and M&A**

Potential foreign investors in Japan frequently point out that extensive cross-shareholding (*mochiai*) in Japan greatly complicates market-based merger and acquisition transactions, and reduces the potential impact of shareholder-based corporate governance. Corporate governance practices which result in senior management emphasizing internal loyalties over shareholder return can also lead to premature rejection of M&A offers. At the same time, Japanese companies are unwinding cross-shareholdings, which has accelerated in recent years under the pressure of difficult corporate finances and stricter accounting requirements. Similarly, more corporations are hiring outside directors, and placing greater emphasis on shareholder value in their management practices.

To assist corporations in reducing the unfunded liabilities of corporate pension funds and to accelerate the unwinding of cross-shareholdings, the Japanese government implemented legislation in 2000 that allows corporations to transfer shareholdings to their related corporate pension funds. If the shares are directly transferred, the pension fund is able to properly execute shareholder rights, and sell the shares if it is deemed in the best interests of the pension-holders. However, many firms prefer the alternative of indirect transfer of shares through a trust whereby the sponsoring corporation retains voting rights and effectively influences when the shares can be sold. In 2001 the GOJ created the Banks' Shareholdings Purchase Corporation to facilitate sale of bank cross-held shares.

In another useful innovation, the Diet approved amendments to the Commercial Code permitting creation of a domestic stock swap system, through which one of the parties becomes a wholly-owned subsidiary company and the other a parent company, as well as a stock transfer system to establish a parent company. Special tax treatment has been implemented in conjunction with the creation of the stock exchange and the stock transfer system to allow deferment of taxes on capital gains on stocks at the time of exchange and transfer. To take advantage of these new rules, however, foreign investors must legally establish a Japanese subsidiary firm to act as the counterpart to the stock exchange/transfer.

Legislation to allow foreign firms — and Japanese firms operating internationally — to use similar transactions when conducting M&As based in other markets has been adopted as part of an amendment to the Industrial Revitalization Act. Unfortunately, deferred tax treatment was not part of the package. The Ministry of Justice Legislative Council intends to introduce more complete legislation as part of the Commercial Code revisions planned for 2005. This revision, if accompanied by appropriate tax measures, is expected to greatly increase the volume of international M&A transactions in Japan.

## **Accounting and Disclosure**

Accounting and disclosure standards are an extremely important element in assessing and improving any nation's environment for mergers and acquisitions. Before any merger or acquisition can take place, it is critical that the merging or purchasing corporations have the best possible information on which to make business decisions. Implementation of "Big Bang" -associated reforms since 1998 has significantly improved Japan's accounting standards.

A shift to consolidated accounting was made mandatory in FY99 and "effective control standards and influence" standards were introduced in place of conventional holding standards, expanding the range of subsidiary and affiliated companies included for the settlement of account. Consolidated disclosure of contingent liabilities, such as guarantees, began in April 1998. Since FY01 all marketable financial assets held for trading purposes including cross-shareholdings and other long-term securities holdings are recorded at market value in Japan.

Also starting in FY00, companies were required to disclose unfunded pension liabilities by valuing pension assets and liabilities at fair value. Fixed asset impairment accounting is scheduled for FY05. This new rule would require firms to record losses if the recoverable value of property, plant or equipment is significantly less than book value.

The greater focus on consolidated results and mark-to-market accounting is already having an impact and is encouraging unwinding of cross-held shares. Corporate restructuring is accelerating, and companies are rushing to reduce pension underfunding. Banks have started disposing of low-yield assets. While the recent improvement in accounting standards and growth in M&A activity have been welcome, they have also exacerbated the shortage of accounting professionals.

### **Taxation and M&A**

Preferential tax treatment of initial public offerings remains a problem. Under current regulations, if a company is sold in an M&A transaction before the IPO listing, a 10% capital gains tax rate applies for listed stocks, and a 26% capital gains tax applies for all others. If the founding shareholder of a qualified company "goes public" and then sells shares of the company into the market, a capital gains tax rate of as low as 5% applies (if the sale is within three years of being listed).

### **Bankruptcy Laws**

An insolvent company in Japan can face liquidation under the Bankruptcy Act or take one of four roads to reorganization: the Civil Rehabilitation Law (*minji-saisei-ho*), the Corporate Reorganization Law (*kaisha-kosei-ho*), corporate reorganization under the Commercial Code (*kaisha-seiri*) or an out-of-court creditor agreement.

In April 2000, Japan overhauled its bankruptcy law governing small and medium size firm bankruptcies by enacting the Civil Rehabilitation Law, which focuses on corporate restructuring in contrast to liquidation. The new law provides improved protection of debtor assets prior to the start of restructuring procedures, eases requirements for beginning restructuring procedures, simplifies and rationalizes procedures for the examination and determination of liabilities and improves procedures for approval of rehabilitation plans. Japan's Corporate Reorganization Law, generally used by large companies, was similarly revised in April 2003. Amendments made corporate reorganization for large companies more cost-efficient, speedy, flexible and available at an earlier stage. By removing many institutional barriers to the restructuring process, the new bankruptcy regime has already accelerated the corporate restructuring process in Japan.

In the 1990s, most corporate bankruptcies in Japan were dealt with by out-of-court creditor agreements because court procedures were lengthy and costly. Also the fact

that bankruptcy trustees had limited powers to oversee restructuring meant that most judicial bankruptcies ended in liquidation, often at distress prices. In 2001, a group of Japanese bankruptcy experts published a set of private rehabilitation guidelines, modeled after the UK-based INSOL guidelines, for out of court corporate rehabilitation in Japan. Out of court workouts in Japan tend to save time and expense, although they sometimes also lack transparency and fairness. In practice, because 100 percent creditor consensus is required for out-of-court workouts and the court can sanction a reorganization plan with only a majority of creditors' approval, the last stage of an out-of-court workout is often a request for a judicial seal of approval.

## **Credit Markets**

Domestic and foreign investors have free access to a variety of credit instruments at market rates. In general, foreign companies in Japan have not experienced significant difficulties in obtaining funding. Most foreign firms obtain short-term credit by borrowing from Japanese commercial banks or one of the many (close to one hundred) foreign banks operating in Japan. Medium-term loans are available from commercial banks, as well as from trust banks and life insurance companies. Large foreign firms have tended to use foreign sources for long-term financial needs, although increasingly sophisticated derivatives products are becoming available to assist in hedging foreign investors' perceived risk.

## **Political Violence: Rare to Unknown**

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In general, political violence is rare in Japan, and acts of political violence involving American business interests are virtually unknown.

## **Corruption: Evolution Towards Stricter Ethical Standards**

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The penal code of Japan covers crimes of official corruption. An individual convicted under these statutes is subject, depending on the nature of the crime, to penal servitude ranging from one month to fifteen years, and possible fines up to three million yen or mandatory confiscation of the monetary equivalent of the bribe.

While corruption usually involves the exchange of moneys, the methods by which business is conducted in Japan can often lead to what some foreign Japan-watchers have described as "institutionalized corruption." For example, the web of close relationships between Japanese companies, politicians, government organizations, and universities has been said to foster an inwardly-cooperative business climate that is conducive to the awarding of contracts, positions, etc. within a tight circle of local players.

Bid-rigging activities continue. Bid rigging harms both the competitive process and Japanese taxpayers, and undermines respect for competition principles and for the Antimonopoly Act. Most damaging is government official support and assistance in bid-rigging conspiracies. The Bid-Rigging Prevention Act came into effect on January 6, 2003. That Act authorizes the Japan Fair Trade Commission (JFTC) to demand central and local government commissioning agencies to take corrective measures to prevent continued complicity of officials in bid-rigging activities, and to report such measures to the JFTC. The Act also contains provisions concerning disciplinary action against officials who have participated in bid rigging and compensation for overcharges when the officials caused



damage to the government due to willful or grave negligence. However, enforcement has lagged, with only two JFTC investigations in the first two years since the Act entered into force. Those cases have raised questions whether the Act's disciplinary provisions are strong enough to ensure that officials who facilitate illegal bid rigging will be held accountable.

*Amakudari* is the practice whereby senior government officials retire into top positions in Japanese companies, usually in industries that they once regulated. These officials then function as in-house consultants on regulatory matters and as lobbyists to their former ministries and agencies. *Amakudari* individuals are particularly common in the financial, construction, transportation, and pharmaceutical industries -- which, not coincidentally, are traditionally heavily-regulated industries. Foreign companies usually do not enjoy such pipelines into the bureaucracy, and thus are somewhat disadvantaged in their ability to understand and deal with laws, regulations, and informal ministry guidance. This disadvantage has been ameliorated somewhat in recent years by the introduction of more transparent administrative procedures.

While there have been some high profile exposures of officials having either given or accepted bribes, the Japanese government has not had an aggressive record of criminal prosecution. Those prosecuted have generally received suspended sentences. In some cases, the government is in the dilemma of deciding how to handle past activities such as "wining and dining" which were commonplace at the time, but which are now more explicitly banned. The recent revelation of several corruption scandals may reflect an evolution towards stricter ethical standards.

Following reform in 1993, numerous shareholder civil suits have been filed. Japanese law also provides for company directors to be found personally liable for the amount of the bribe, and some judgments have been rendered against company directors. This change may significantly impact the payment of bribes, as individuals are held personally liable without the shield of the company to protect them, although there is currently discussion within the ruling political party of new rules to make it harder to file shareholder derivative lawsuits.

Japan has also ratified the OECD Anti-Bribery Convention, which bans the bribing of government officials in countries outside Japan. The OECD has identified some deficiencies in Japan's implementing legislation, some of which the Government of Japan has taken steps to rectify.

Most recently, in May 2004, Japan further amended the Unfair Competition Prevention Law (UCPL) to extend national jurisdiction to cover the crime of bribery. This change may facilitate enforcement action, but as of January 2005 Japan had yet to file any foreign bribery cases. The GOJ also submitted an amendment to the Organized Crime Prevention Law to provide for confiscation of bribery proceeds for consideration by the 2004 Regular Diet Session; this amendment was held over to the next Diet session. The GOJ has not acted on other changes recommended by the OECD Bribery Working Group, such as increasing the level of penalties for bribery.

**Bilateral Investment Agreements: Continuing Discussions under EPG**

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The 1952 U.S.-Japan Treaty of Friendship, Commerce, and Navigation gives national treatment and most favored nation treatment to most U.S. investments in Japan.

### **U.S.-Japan Investment Arrangement**

U.S. Government concerns regarding barriers to foreign investment in Japan continue to be addressed through bilateral discussions under the U.S.-Japan Economic Partnership for Growth (EPG), established by President Bush and Prime Minister Koizumi in June 2001. The Investment Initiative Working Group has conducted three full years of meetings discussing policy measures to improve the investment atmosphere in Japan and has pursued a vigorous program of public outreach. In order to increase business awareness and receptiveness to FDI, investment promotion seminars were held in the Japanese cities of Kobe, Fukuoka, and Nagoya in March 2002, in Osaka and Sapporo in April 2003, and in Kitakyushu and Kyoto in April 2004. Similarly, investment symposia were held in New York and Chicago in July 2002, and in San Francisco and Chicago in June 2003. Symposia in 2004 were held in October in Atlanta and Los Angeles.

### **OPIC And Other Investment Insurance Programs: Not Available**

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OPIC insurance and finance programs are not available in Japan. Japan has been a member of the Multilateral Investment Guarantee Agency (MIGA) since it was established in 1988. Japan's capital subscription to the organization is the second largest among member countries, after the United States.

### **Labor: Toward More Flexibility**

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The Japanese labor market today suffers from demographic, macro-economic, and structural pressures, which are beginning to change traditional Japanese employment practices. The regulatory philosophy that has formed Japan's post-war labor laws is also changing. Foreign investors seeking to hire highly qualified workers in Japan will welcome most of these changes.

Japanese employment practices have been said to rest on "three pillars:" lifetime employment, seniority-based wages, and enterprise unions. In fact, these three aspects of the Japanese labor market have always applied only to the larger firms, and today all three are undergoing transformation. Demographic pressures — fewer young workers and a rapidly aging labor force — as well as the need for structural changes in the Japanese economy are forcing most firms to abandon both lifetime employment guarantees and seniority-based wages in favor of merit-based pay scales and limited-term contracts. Also, although labor unions play a role in the annual determination of wage scales throughout the economy, only 20.7 % of Japanese workers were union members in 2001. In firms with less than 100 employees, only 1.3 % were unionized in 2001.

Investors should be aware of Japan's high wage structure. In 2001, workers earned an average of approximately 305,800 yen per month (1.2 % increase from the previous year) in base wages including benefits, with significant variations by education, age/seniority and position. Occupational wage differentials are much smaller than in most countries. However, the Japanese Federation of Employers estimates that base

wages, including basic benefits, were only 72.7 % of total wage costs in 2001. Annual summer and year-end bonuses added, on average, another 27.3 %. Relatively high statutory welfare contributions are also required for basic government pensions, health and accident insurance, and unemployment insurance. Most companies also incur other employee welfare costs for family and/or transportation allowances, company-provided pension schemes, and such in-kind payments as housing for some employees. Off-setting these high wage costs, of course, is the fact that the Japanese work force is highly educated, disciplined, loyal to their employer, and motivated to assure the economic well-being of the company.

Japanese workers have traditionally been classified as being either "regular" or "other" employees and this system is, to a considerable degree, still in place today. Regular employees are usually recruited directly from schools or universities and given an employment contract with no fixed duration. Other employees are given fixed duration employment contracts, which generally cannot exceed one year but may be renewed several times over. Still other employees include part-timers, interns, and "dispatched workers" — as workers from temporary work agencies are called in Japan. Until very recently, only a few occupations could be handled by dispatched worker agencies but this is one area where Japanese labor law has in fact been deregulated, thus the number and types of dispatched workers have increased geometrically over the past several years.

The regulation of private, fee-charging employment agencies — including executive search firms — has also recently been liberalized. Although a fairly time-consuming and bureaucratic licensing procedure is still required, private employment agencies can now serve virtually the entire range of occupations. On-line, Internet based, job seeking and placement services are, however, still in their infancy in Japan — constrained at least partly by a Ministry of Labor requirement that every employment agency must personally interview each of its clients.

Defined contribution pensions, introduced in October 2001, should promote labor mobility, as workers will be able to carry their pension funds to other jobs.

#### **Foreign-Trade Zones / Free Ports / Special Zones for Structural Reform**

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Japan no longer has any free-trade zones or free ports. Customs authorities, however, do allow the bonding of some warehousing and processing facilities in certain areas adjacent to ports on a case-by-case basis. The GOJ established a law in 1992 entitled the "Law on Extraordinary Measures for the Facilitation of Imports and Foreign Direct Investment in Japan" (effective July 1992 and valid until May 2006). Under the law, the GOJ helps increase access to the Japanese market for foreign goods and capital at government-designated "foreign access zones" near harbors and airports.

Prime Minister Koizumi is taking new approaches to restructuring Japan's economy. His administration's Special Zones for Structural Reform (SZSR) initiative is working to revitalize Japan's regional economies through locally led regulatory and structural reform. The Special Zones initiative can help remove the regulatory barriers that limit U.S. business market entry and foreign investment into Japan. For example, Japan reduced customs overtime charges within its International Physical Distribution Zones by

50% in April 2004. (For more details, see *also* the section on “Investment Incentives” under [Openness To Foreign Investment: Few Formal Restrictions](#), *supra*.)

#### **Capital Outflow Policy: Net Exporter of Capital**

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Japan has continued to be a net exporter of capital, as reflected in Japan's current account surplus, which totaled \$136.0 in CY2003 and \$112.8 billion in CY2002.

#### **Foreign Direct Investment Statistics: Steady Increase in Japan's FDI Stock in CY2003**

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The following tables incorporate data for CY 2003 and JFY 2003 (April, 2003 through March, 2004) for both inward and outward foreign investment in Japan. Until 2002, the Report used Fiscal-Year and notification-based data announced by the Ministry of Finance (MOF). The official statistics used until 2002 represent notification to the Ministry of Finance (MOF) of authorization by MOF of specific planned investment projects (as reported to MOF by companies), not necessarily actual flows of investment. In addition, the notification-based FDI statistics do not exclude investment that was withdrawn afterwards. Thus these figures generally exceed by a substantial amount actual investment flows as reported in Japan's balance of payments data. For those reasons, from the 2003 report we use balance-of-payments data as much as possible, particularly for the stocks of FDI. Balance of payments data, however, provide only overall FDI values by country, and do not cover industry-by-industry FDI and the number of cases of FDI. For those data, we still have to rely on MOF's notification-based data. (At the same time, neither notification-based data nor balance of payments statistics capture re-investment of profits by foreign firms operating in Japan, or Japanese firms operating overseas. Therefore, according to some academic researchers, both types of official data misstate actual foreign capital investment by a wide margin.)

FDI in Japan has soared since the mid 1990s. In fact, FDI stock in Japan has more than tripled (on an yen basis) in the period 1998-2003, from 3.0 trillion yen at the end of 1998 to 9.6 trillion yen at the end of 2003. Reforms in the financial, communications, and distribution sectors have encouraged foreign investment into these sectors. Improvements in corporate laws, bankruptcy laws, and accounting principles have also helped attract foreign capital to Japanese companies. In CY 2003, FDI toward Japan slowed to \$6.3 billion from \$9.2 billion in CY 2002, but this followed continued strong increases in FDI recorded over the last several years. Also given a rise in yen's value relative to the U.S. dollar in CY 2003 (115.93 yen on the average, compared with 125.31 yen in CY 2002), last year's FDI result was reasonably positive.

In CY 2003, Japan's FDI overseas also shrank to \$28.8 billion from the previous year's level of \$32.3 billion. Such investment last year declined in almost all regions in the world, including Europe, Asia, Latin America, and Oceania. Japan's FDI in the U.S., however, continued its robustness in CY 2003, expanding to \$10.7 billion from the previous year's level of \$7.6 billion. While Japan's FDI in Asia plunged in 2003 to \$5.0 billion from the CY02 level of \$8.2 billion, such investment in China strongly gained to \$4.0 billion from \$2.6 billion in the preceding year. In other words, in CY 2003 China attracted 90 percent of Japan's FDI in the Asia region as a whole.

All data in the tables below is from MOF, current as of June, 2004, and converted into

dollars using each year's average exchange rate: CY00 data at 107.77 yen to the dollar, CY 01 data at 121.53 yen to the dollar, CY 02 data at 125.31 yen to the dollar, CY03 data at 115.93 yen to the dollar, JFY03 data at 113.03 yen to the dollar, and "Cumulative Total" data as of the end of CY 2003 at 107.90 yen to the dollar.

<b>TABLE 1a</b>		
<b>Annual New FDI into Japan</b>		
<i>(Billions of Dollars Notification Basis until JFY 1999 Balance-of-Payments Basis for CY 2000, 2001, 2002, and 2003)</i>		
<b>JFY</b>	1993	3.08
	1994	4.16
	1995	3.83
	1996	6.84
	1997	5.53
	1998	10.47
<b>CY</b>	1999	21.5
	2000	8.32
	2001	6.242
	2002	9.24
	2003	6.80

<b>TABLE 1b</b>		
<b>Ratio of Japan's Inward to Outward FDI Flows</b>		
<i>(Notification Basis until JFY 1999 Balance-of-Payments Basis for CY 2000, 2001, 2002, and 2003)</i>		
<b>JFY</b>	1993	1:11.7
	1994	1: 9.9
	1995	1:13.4
	1996	1: 7.0
	1997	1: 9.8
	1998	1: 3.9
<b>CY</b>	1999	1: 3.1
	2000	1: 3.8
	2001	1: 6.1
	2002	1: 3.5
	2003	1: 4.6

<b>TABLE 2</b>				
<b>Foreign Direct Investment in Japan, by Country</b>				
<i>(Millions of dollars; annual flow; balance-of-payments basis)</i>				
	<b>CY 2001</b>	<b>CY 2002</b>	<b>CY 2003</b>	<b>CY 2003-End (Cumulative Total)</b>
<b>North America</b>	4,252	3,128	-555	38,876
U.S.	3,495	2,564	-582	36,297
Canada	758	565	28	3,578
<b>Europe</b>	2,927	6,316	5,119	38,935
Netherlands	2,556	1,710	3,206	13,424
United Kingdom	-1,219	541	-437	1,677
Germany	243	555	1,755	4,935
Switzerland	128	1,045	-287	2,624
France	424	2,305	653	12,215
<b>Asia</b>	129	12	379	4,862
Thailand	-195	-134	29	49
Singapore	20	124	333	1,039
Taiwan	165	-23	78	1,577
Hong Kong	94	-14	38	1,777
South Korea	38	63	95	242
China	--	--	2	89
<b>Latin America</b>	-1,011	-189	1,376	4,723
Cayman Islands	-1,050	-114	1,348	4,150
Brazil	0	0	0	13
Mexico	--	--	2	5
<b>Total</b>	6,241	9,245	6,325	89,063
<i>Note: Negative figures indicate capital outflow on a net basis.</i>				

<b>TABLE 3</b>			
<b>Foreign Direct Investment in Japan, by Industry</b>			
<i>(Millions of dollars; annual flow; reporting basis)</i>			
	<b>JFY 2001</b>	<b>JFY 2002</b>	<b>JFY 2003 (Cumulative Total)</b>
<b>Manufacturing</b>	2,611	6,749	4,310
Machinery	1,103	2,220	2,489
Chemicals	920	3,417	970
Metals	1	136	26
Rubber/Leather	56	0	0
Petroleum	70	508	113
Textiles	22	34	10
Foods	280	67	449
Glass/Ceramics	75	3	7
Other	84	365	248
<b>Non-Manufacturing</b>	14,729	11,186	14,411
Finance/Insurance	5,261	5,306	9,006
Trade	865	2,118	3,266
Services	1,325	2,025	955
Real Estate	586	239	610
Telecom	6,597	1,414	534
Transport	18	22	15
Construction	68	19	10
Other	6	45	18
<b>Total</b>	17,340	17,935	18,722

<b>TABLE 4</b>						
<b>U.S. Direct Investment in Japan, by Industry</b>						
<i>(Annual flow; reporting basis)</i>						
	<b>JFY 2001</b>		<b>JFY 2002</b>		<b>JFY 2003</b>	
	\$ Million	# of Cases	\$ Million	# of Cases	\$ Million	# of Cases
<b>Manufactured Goods</b>	775	44	1,057	50	555	33
Machinery	581	28	637	29	531	16
Chemicals	179	8	322	10	9	8
Metals	--	--	46	4	--	--
Foods	--	--	0	1	12	6
<b>Non-Manufactured Goods</b>	4,736	411	4,322	396	3,338	351
Finance/Insurance	3,447	101	1,788	122	808	133
Commerce/Trade	529	75	715	80	1,349	44
Services	409	191	726	726	534	106
Real Estate	50	23	127	56	476	63



Telecom	230	16	966	8	170	4
Construction	68	4	1	2	1	1
<b>Total</b>	<b>5,511</b>	<b>455</b>	<b>5,380</b>	<b>446</b>	<b>3,893</b>	<b>384</b>
<i>Note: Data is actually North America, not U.S.</i>						

<b>TABLE 5</b>				
<b>Japanese Direct Investment Overseas, by Country</b>				
<i>(Millions of dollars; annual flow; balance-of-payments basis)</i>				
	<b>CY 2001</b>	<b>CY 2002</b>	<b>CY 2003</b>	<b>CY 2003-end (Cumulative Total)</b>
<b>North America</b>	7,675	8,649	11,039	142,149
U.S.	7,081	7,592	10,733	137,995
Canada	595	1,057	306	4,155
<b>Europe</b>	17,911	9,764	7,969	86,818
United Kingdom	12,856	2,053	2,500	24,218
Netherlands	3,073	1,455	3,419	33,408
Germany	686	576	715	6,182
France	225	4,009	1,173	7,216
Spain	-73	-87	145	961
Sweden	-110	326	119	1,304
<b>Asia</b>	7,836	8,177	4,965	63,713
Thailand	1,590	524	673	7,584
Indonesia	483	303	474	6,679
China	2,161	2,610	3,950	15,164
Singapore	970	1,880	454	9,741
Hong Kong	504	224	78	5,637
Malaysia	574	261	512	3,925
Philippines	276	1,094	110	3,133
South Korea	653	433	335	5,031
India	152	149	126	1,494
Taiwan	362	456	215	4,310
<b>Latin America</b>	4,327	4,072	3,208	21,785
Cayman Islands	1,492	3,457	1,659	10,327
Brazil	885	741	1,089	4,878
Mexico	2	240	371	2,845
<b>Oceania</b>	669	1,424	1,120	13,514
Australia	554	1,142	946	11,419
<b>Africa</b>	183	227	436	2,034
South Africa	9	106	120	1,060
<b>Middle East</b>	0	89	38	892
UAE	-3	26	49	44
Saudi Arabia	35	81	22	796
<b>Total</b>	<b>38,333</b>	<b>32,301</b>	<b>28,801</b>	<b>333,016</b>
<i>Note: Negative figures indicate capital inflow on a net basis.</i>				

<b>TABLE 6</b>			
<b>Japanese Direct Investment Overseas, by Industry</b>			
<i>(Millions of dollars; annual flow; reporting basis)</i>			
	<b>JFY 2001</b>	<b>JFY 2002</b>	<b>JFY 2003 (Cumulative Total)</b>
<b>Manufactured Goods</b>	13,893	14,689	16,246
Electrical	3,646	3,920	5,005
Chemicals	1,438	1,916	4,749
Transport	4,138	4,916	3,013
Food	815	222	428
Metals	633	633	1,078
Machinery	1,214	1,288	956
Lumber/Pulp	729	240	28
Textiles	202	199	178
Other	846	1,354	810
<b>Non-Manufactured Goods</b>	17,312	21,860	19,599
Finance/Insurance	10,712	12,801	7,639
Commerce/Trade	2,568	3,694	4,315
Real Estate	523	1,449	1,494
Services	1,545	1,836	1,939
Transport	1,335	1,503	1,876
Mining	478	367	1,915
Construction	64	121	258
Agriculture/Forestry	33	7	157
Fisheries	27	56	4
Other	26	27	--
<b>Total</b>	<b>31,487</b>	<b>49,257</b>	<b>31,487</b>

<b>TABLE 7</b>							
<b>Foreign Direct Investment in Japan relative to GDP</b>							
<i>(FDI figures until JFY 1999 are on a notification basis, and on a balance-of-payments basis for CY 2000 through 2003)</i>							
<i>(trillion yen)</i>	<b>JFY 1997</b>	<b>1998</b>	<b>1999</b>	<b>CY 2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
(a) Nominal GDP	507.6	487.3	493.8	511.8	500.3	499.99	497.82
(b) FDI Inflow	0.68	1.34	2.4	0.90	0.76	1.16	0.73
b ÷ a (%)	0.13	0.27	0.49	0.18	0.16	0.23	0.15

<b>Table 8</b>	
<b>Examples of Major Foreign Direct Investments by U.S. Companies and Other Foreign Nations' companies</b>	
<b>8a. Financial/Insurance Services</b>	
Merrill Lynch	acquired Yamaichi securities
GE Capital	acquired Toho Insurance
Manulife (Canadian)	acquired Daihyaku Insurance
Ripplewood	acquired Long Term Credit Bank
AIG	acquired Chiyoda Life Insurance
Prudential	acquired Kyoei Life Insurance
City Financial, Japan	acquired assets of Marufuku (a consumer loan company)
<b>8b. Information Technology/Telecommunications</b>	
C and W (British/US interest)	acquired IDC
MCI World Com	greenfield investment
Level 3	greenfield investment
Time Warner/Media One	TITUS
Global One (Sprint JV with European firms)	greenfield investment
Cisco Systems	capital participation in Soft Bank
Microchip Technology	acquired assets of Fujitsu
Intel	capital participation in Nikon
Advanced Anologic Technology	established its Japanese subsidiary
RCS	established its branch office in Tokyo
<b>8c. Distribution/Retail/Hotel/Real Estate</b>	
Toys-R-US	long-established player in this market, and still expanding
Costco	d <sup>o</sup>
Sports Authority	d <sup>o</sup>
GAP	d <sup>o</sup>
Disney stores	d <sup>o</sup>
Nike	d <sup>o</sup>
Amazon.com	d <sup>o</sup>
Starbucks	d <sup>o</sup>
Ripplewood	acquired Phoenix Seagaia Resort
Wal-Mart	business tie-up with Seiyu Supermarket
CB Richard Ellis	acquired equities of New City Corporation (a real estate company)
Colony Capital LLC	acquired from Daiei the Fukuoka Dome baseball stadium and neighboring Sea Hawk Hotel and Resort
<b>8d. Manufacturing</b>	
<b>(tie ups)</b>	
Renault	Nissan
Ford	Mazda
GM	Suzuki
Daimler-Chrysler	Mitsubishi Motor
<b>(acquisitions)</b>	
GE	acquired Kawasaki LNP (Kawasaki Steel's

	chemical manufacturing subsidiary)
Dow Chemical	acquired Leich Hold (Dai Nippon Chemical's subsidiary)
IBM	acquired Display Technology (Toshiba's CD/LSD manufacturing subsidiary)
Solelectron	acquired NEC's PC manufacturing business department)
Micron Technology	acquired KMT Semiconductor (Kobe Steel's semiconductor manufacturing subsidiary)
Micron Technology	acquired assets of Dominion Semiconductor (Toshiba's subsidiary)
Carlyle Japan Holdings Three	acquired Kito Corporation (a manufacturer of industrial machinery)
Kodak Japan Digital Product Development	acquired Chinon Industries (a manufacturer of digital cameras)
Merck & Co.	acquired Banyu Pharmaceutical Co.

## Web Resources

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Promotion of foreign direct investment (FDI) in Japan:

<http://www.investment-japan.net/index.htm>

Invest Japan Business Support Center  
Japan External Trade Organization (JETRO)  
<http://www.jetro.go.jp/investjapan/>

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## Chapter 7: Trade and Project Financing

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- [How Does the Banking System Operate](#)
- [General Availability of Financing](#)
- [Types of Available Export Financing and Insurance](#)
- [Foreign-Exchange Controls](#)
- [U.S. Banks and Local Correspondent Banks](#)
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### How Do I Get Paid (Methods of Payment)

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There are a number of methods used to settle payment in Japan: cash in advance, letter of credit used in conjunction with a documentary draft (time or sight), promissory note, documentary collection or draft, open account and consignment sales. As with U.S. domestic transactions, a major factor in determining the method of payment is the degree of trust in the buyer's ability and willingness to pay.

Because of the protection it offers to the American exporter and the Japanese importer, an irrevocable letter of credit (L/C) payable at sight is commonly used for settlement of international transactions. As large Japanese general trading companies often serve as intermediaries to small and medium-sized companies, L/Cs are often issued in their name rather than in the name of the end user of the product. With the trading company taking on the risk of the transaction, the U.S. firm is protected from the possible bankruptcy of the smaller company.

Another payment option is the use of documentary collection or open account with international credit insurance that, unlike the letter of credit, allows the importer's line of credit to remain open. At the same time, this option protects the exporter if the buyer goes bankrupt or cannot pay. International credit insurance can be obtained from the Export-Import Bank of the United States or private insurers.

A payment method widely used in Japan but sometimes unfamiliar to U.S. companies is the promissory note (*yakusoku tegata*). Promissory notes are IOUs with a promise to pay at a later date, typically 90 to 120 days. Banks will often provide short-term financing through discounting and rollover of notes. Factoring and other forms of receivables financing (whether with or without recourse) are not common in Japan, and more conservative businesspeople find such arrangements a violation of the "relationship" between buyer and seller. It should be noted that, domestically, it is not uncommon for the buyer to request, and be granted an extension of the term of the *tegata* if there are cash-flow problems.

### How Does the Banking System Operate

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While financial system deregulation and international competitive pressure has drastically changed the face of Japanese banking (the consolidation of 19 major banks into 4 super banks), the connection between corporate finance and banking institutions and non-financial corporations remains much tighter in Japan than in the United States; and extends far beyond simple lender/borrower relationships. Much corporate banking

business is rooted in either *keiretsu* or regional relationships, and Japanese banks are frequently shareholders in companies that conduct banking business with them, although there are signs of changes. Japanese companies are traditionally highly leveraged in comparison with their U.S. counterparts, as banks take an active role in maintaining the financial health of their clients.

This unique relationship between a company and its bank has been long-standing; until recently, a Japanese company rarely changed its primary lender, although it would occasionally "shop around" for better credit arrangements. Even when credit is loose, companies sometimes borrow in excess of their need in order to maintain good relations with their bank and to ensure that funds will be available in leaner years. Banks are often large shareholders in publicly traded corporations, have close relationships with both local governments and national regulatory agencies, and often play a coordinating role among their clients. The collapse of the asset price "bubble" and the consequent worsening of bank balance sheets since the early 1990s, as well as corporate borrowing outside of traditional channels, has increasingly caused borrowers to tap international capital markets, and placed traditional banking systems under considerable strain. However, it remains safe to say that the Japanese commercial bank system is much more relationship oriented than the transaction-based U.S. system.

While large corporations with suitable credit ratings (especially export-oriented firms) can rely on corporate bond issues rather than banks for financing, bank lending continues to be the primary financing method for small and medium sized companies. However, after the "bubble" economy of the late 1980s and early 1990s, Japanese banks have had a harder time maintaining strong capital positions, and consequently have become more restrictive, leading to a credit crunch. In November 1996, the Japanese government embarked on a "Big Bang" financial reform initiative and has taken a number of helpful measures since then. While the actual long-term market impact of this liberalization still remains to be seen, the psychological impact in raising awareness of the potential effects of deregulation is now apparent.

Japanese banks offer regular and time deposits and checking accounts for businesses. Checks are negotiable instruments that are in effect payable to the bearer (rather than to the order of the payee, as in the United States). This limits the usefulness of checks, and in fact, most payments are made by electronic bank transfer (which costs a few hundred yen on average), or by sending cash through the postal system. The banks (and now investment/securities firms) continue to wage an uphill battle against the postal savings system for consumer deposits, a fight that has become more difficult recently due to the perceived superior safety of the postal deposit system. The postal system enjoys regulatory permission to pay higher rates than commercial banks (and is in turn an important source of working capital for the government).

Personal checking accounts are almost unknown in Japan. Most individuals use electronic bank transfers to settle accounts. Cash settlement is also very common and the Post Office has a mechanism for payment by "cash envelope" which is widely used in direct marketing and other applications. Many Japanese banks now operate 24-hour cash machines (as do some credit card companies). Bank and other credit cards are easy to obtain and are widely accepted. The credit card market reached about 30 trillion yen at the end of 2004. Some bank credit cards offer revolving credit, but in most cases balances are paid in full monthly via automatic debiting from bank accounts.

The relationship among trading company, end user and exporter is an important feature of the financing environment in Japan. The Japanese general trading company (*sogo shosha*) is an integrated, comprehensive organization that embraces a range of functions including marketing and distribution, financing and shipping and the gathering of commercial information. It performs functions that in the United States would be carried out by import/export companies, freight forwarders, banks, law firms, accounting firms and business consultants. Thus, U.S. firms dealing with trading companies should familiarize themselves with the financing capabilities of such firms.

## **General Availability of Financing**

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While some large U.S. companies in Japan enjoy strong relationships with the larger Japanese "city banks," most medium and small-sized U.S. firms have stated that it is difficult to secure the specific type of trade financing services needed for importing and distribution. In Japan, credit evaluation is heavily asset-based, and real estate is still favored as collateral despite the collapse of "bubble" era valuations. Moreover, a firm's ability to borrow may also be based on its personal relationships and rapport with bank officials rather than on typical U.S. standards of credit-worthiness. Some smaller firms report that they have been forced to secure needed financing from offshore sources. For U.S. companies with operations in Japan, teaming up with Japanese partners in a joint venture has been effective as a way to receive better treatment from Japanese banks.

While most American banks operating in Japan do engage in lending to subsidiaries of U.S. companies (especially their home market clients), many of them focus on higher value-added lines of business than conventional credit products.

When a Japanese bank extends credit to a foreign-owned company in Japan, it generally evaluates the financial status of both the borrower and its parent company. Even in cases where the Japanese subsidiary is financially strong, the parent company is often requested to guarantee the obligation (although a "Letter of Awareness" may be accepted in lieu of a guarantee).

## **Types of Available Export Financing and Insurance**

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The Government of Japan's programs to promote imports and foreign investment in Japan include tax incentives, loan guarantees, low-cost loans to Japanese and foreign investors for import infrastructure through the Development Bank of Japan and other loan programs. Underscoring the Government's emphasis on import promotion, both METI and JETRO have established import divisions. In addition, Japan has a program to develop 22 Foreign Access Zones to offer enhanced import infrastructure facilities and eligibility for preferential tax treatment and low-cost loans.

Four major public financing corporations, the Japan Bank for International Cooperation, the Development Bank of Japan, the Japan Finance Corporation for Small Business and the National Life Finance Corporation, now make low-interest loans to encourage imports to and investment in Japan. In addition, the services of the Japan Regional Development Corporation, a government-affiliated institution that develops business parks and provides long-term loans at low interest rates, are available to foreign companies.



The Japan Bank for International Cooperation's import credit program for manufactured goods aims to provide support for the import of manufactured goods from developed countries to Japan. Five-year secured or guaranteed loans up to 70 percent loan-to-value and credit lines at preferential interest rates are available to importers, distributors and retailers incorporated in Japan who plan to increase their imports of manufactured goods excluding food products 10 percent or more over the previous year. Direct 70 percent loan-to-value long-term loans are also available to foreign exporters for the purchase of manufactured goods which will be exported to Japan under deferred-payment terms, as well as to foreign manufacturers and intermediary financial institutions for investment in production facilities and equipment to be used to produce goods for the Japanese market.

The Development Bank of Japan (DBJ) offers loans designed to increase imports into Japan. These loans are available to Japanese companies with at least 33 percent foreign capital or registered branches in Japan of non-Japanese companies for 40 to 50 percent of project costs for the expansion of business operations in Japan.

The Japan Finance Corporation for Small Business and National Life Finance Corporation has expanded their program to facilitate import sales. The program aims to provide support to small-scale retailers, wholesalers and importers in Japan for investments to increase imports to Japan.

A program between U.S. Eximbank and the Export-Import Insurance Division of METI (EID/METI) provides for co-financing insurance for U.S. exports to developing countries. EID/METI will also be providing advance payment insurance for U.S. exports to Japan. For additional details on these and other cooperative financing programs, U.S. companies should contact U.S. Eximbank.

No insurance for U.S. exporters is available from the Japanese Government.

## **Foreign-Exchange Controls**

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Foreign exchange regulations have almost no impact on normal business transactions. One deregulatory action likely to lower foreign exchange transaction costs is the revision of Japan's Foreign Exchange Law, which went into force in April 1998, and enabled a broad variety of institutions to conduct foreign exchange transactions. Prior to that action, only "authorized foreign exchange banks" could undertake such transactions, a system that dated back to Japan's opening to the West in the late 19th century.

## **U.S. Banks and Local Correspondent Banks**

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Besides the more than 20 U.S. banks with branches in Japan, many U.S. banks have correspondent relationships with Japanese banks, which themselves have many branches and subsidiaries in the United States.

### **Commercial Banks in Japan**

Resona Bank  
2-1 Bingomachi 2-chome, Chuo-ku

Osaka 540-8610  
Japan  
Phone: +81/6/6271/1221  
Fax: +81/6/6268/1337  
<http://www.resona-hd.co.jp/>

Bank of Tokyo-Mitsubishi  
2-7-1 Marunouchi, Chiyoda-ku,  
Tokyo 100-8388  
Japan  
Phone: +81/3/3240-1111  
Fax: +81/3/3240-4764  
<http://www.btm.co.jp/>

Development Bank of Japan  
1-9-1 Ohtemachi, Chiyoda-ku  
Tokyo 100-0004  
Japan  
Phone: +81/3/3244-1770  
Fax: +81/3/3245-1938  
<http://www.dbj.co.jp/>

Japan Bank for International Cooperation  
1-4-1 Ohtemachi, Chiyoda-ku  
Tokyo 100-8144  
Japan  
Phone: +81/3/5218-3579  
Fax: +81/3/5218-3968  
<http://www.jbic.co.jp/>

Mizuho Corporate Bank  
1-3-3 Marunouchi, Chiyoda-ku  
Tokyo 100-8210  
Japan  
Phone: +81/3/3214/1111  
<http://www.mizuhocbk.co.jp/>

Sumitomo Mitsui Banking Corporation  
1-1-2 Yurakucho, Chiyoda-ku  
Tokyo 100-0006  
Japan  
Phone: +81/3/5512-3411  
Fax: +81/3/5512-4429  
<http://www.smbc.co.jp/>

United Financial of Japan (UFJ)  
3-5-6 Fushimi-machi, Chuo-ku  
Osaka 541-8530  
Japan  
Phone: +81/6/6206-8111  
Fax: +81/6/6229-9305

2/8/2005

<http://www.ufjbank.co.jp/>

### **Multilateral Development Bank Offices in Country**

Asian Development Bank  
Second floor, Yamoto Seimei Building  
1-1-7 Uchisaiwai-cho, Chiyoda-ku  
Tokyo 100-0011  
Japan  
Phone: +81/3/-3504-3160  
Fax: +81/3/3504-3165  
E-mail: [adbpro@adb.org](mailto:adbpro@adb.org)  
<http://www.adb.org/>

### **Project Financing**

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### **Availability (OPIC, Eximbank, and Multinational Institutions)**

As mentioned above under [General Availability of Financing](#), OPIC insurance and finance programs are not available in Japan. Japan has been a member of the Multilateral Investment Guarantee Agency (MIGA) since it was established in 1988.

In addition to the investment loan programs from Japanese Government-affiliated lenders described above, prefectures and municipalities offer various incentives, including construction, land acquisition and labor hiring subsidies, special depreciation of business assets, tax deferments for replacement of specific assets, exemption from special land-owning taxes assessed by municipalities and prefectural and municipal real estate acquisition, enterprise and municipal property tax reductions. In addition, most prefectures offer loan programs to encourage companies to establish local operations.

Japan's venture capital specialist funds are only half the size of those in the United States. Traditionally the top Japanese venture capital companies have acted more like quasi-banks than venture capital firms. Also, Financial Services Agency guidance to brokers to set tough standards for companies seeking to go public results in even the best companies taking up to a decade to get a listing on the over-the-counter stock market — less than 1000 over-the-counter stocks are listed on the 8-year-old JASDAQ, Japan's electronic OTC market.

### **Types of Projects Receiving Financing Support**

In line with the Cabinet Decision in March 1995, the Export-Import Bank of Japan (JEXIM) and the Overseas Economic Cooperation Fund (OECF) merged on October 1, 1999, creating a new institution, the Japan Bank for International Cooperation (JBIC).

JBIC is a governmental institution that deals with external economic policy issues such as encouraging exports, securing access to energy resources, promoting direct overseas investments and improving Japan's external imbalances through financial assistance to the trade and investment activities of Japanese companies.

The financial facilities offered by JBIC include export loans, import loans, overseas investment loans and untied loans. JBIC also provides loan guarantees to private

financial institutions, short-term loans designed to finance the external transactions of the governments of developing nations (bridge loans), and equity participation in the overseas projects of Japanese companies.

JBIC's international financial operations focus on projects in developing countries where local financial institutions cannot provide financing on their own. As JBIC's mandate is the support of internationalization for Japanese companies, its loans can be distinguished from Overseas Economic Cooperation operations, which targets the economic development of developing countries.

### **Overseas Investment Loans and Overseas Project Loans**

These loans are typically granted via JBIC and extended to Japanese corporations for overseas investment activities and overseas projects. Overseas investment loans can also be made to overseas joint ventures involving Japanese capital and to foreign governments for capital investments or loans to joint ventures involving Japanese capital.

### **Un-Tied Loans**

Extended to foreign governments, foreign governmental institutions, foreign financial institutions (including multilateral development banks), foreign corporations, and so forth for high-priority projects and economic restructuring programs in developing countries. These loans are not tied to the procurement of goods and services from Japan but are restricted to the specific purposes designated for each loan. These loans are managed by JBIC.

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Export-Import Bank of the United States: <http://www.exim.gov>

Country Limitation Schedule: [http://www.exim.gov/tools/country/country\\_limits.html](http://www.exim.gov/tools/country/country_limits.html)

OPIC: <http://www.opic.gov>

Trade and Development Agency: <http://www.tda.gov/>

SBA Office of International Trade: <http://www.sba.gov/oit/>  
(Small Business Administration)

USDA Commodity Credit Corporation: <http://www.fsa.usda.gov/ccc/default.htm>

U.S. Agency for International Development: <http://www.usaid.gov>

Asian Development Bank (ADB): <http://www.adb.org/>

ADB Japan Representative Office: <http://www.adb.org/JRO/default.asp>

Japan External Trade Organization (JETRO): <http://www.jetro.go.jp/>

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### Business Customs

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An understanding of Japanese business and social practices is useful in establishing and maintaining successful business relationships in Japan. Indifference to local business practices may indicate a lack of commitment on the part of the exporter, and may lead to misunderstandings and bad feelings, which could result in the loss of business opportunities. One should not assume that because meetings and correspondence are carried out in English that Western social and business norms apply.

Japanese society is complex, structured, hierarchical and group-oriented with strong emphasis on maintaining harmony and avoiding direct confrontation. Japanese religious practice tends to be socially oriented and selective rather than a matter of deep personal commitment; ethics tend to be situational. In building relationships (which often precede a first-time sale or an agreement) one should emphasize trust, confidence, loyalty and commitment for the long term.

Group decision-making is important in Japan and has been generally described as a bottom up exercise rather than top down. Family businesses founded since WWII and smaller second-tier firms are exceptions to this rule. However, even in the large family firms, where decisions are made at the top, the process is usually managed so that company members have a sense of participation. This type of group decision-making tends to be slower. Recognizing that it takes a longer time to cultivate business relationships in Japan than in the United States, American business executives should not expect to make a deal in just a few days. Consistent follow-up is vital. Likewise, American business people should recognize the importance of working with the staff level of their Japanese counterparts and not exclusively with the executive level.

Gift giving is expected on many business occasions in Japan. Regional U.S. gifts or company-logo gifts are appropriate. Quality is important, but the gift does not have to be expensive. The packaging of the gift is as important as the gift itself and should be done professionally. In Japan, sets of four are considered unlucky (the number four is pronounced the same as the word for death). Gifts that can be shared among a group are appropriate.

Business travelers to Japan should make sure to bring a large supply of business cards (with their title) when they come to Japan; printing bilingual cards is a nice touch. Business cards are exchanged to formalize the introduction process and establish the status of the parties relative to each other. Japanese bow when greeting each other but will expect to shake hands with foreign executives. A slight bow in acknowledgment of a Japanese bow is appreciated. Japanese executives deal on a last name basis in business relationships, and initial business and social contacts are characterized by politeness and formality.

Business travelers visiting a Japanese firm for the first time should be accompanied by an interpreter. Many Japanese executives and decision-makers do not speak English, although many of them can greet visitors in English and read English product literature relevant to their business or industry expertise. Generally speaking, Japanese are weaker at hearing and speaking English, and more adept at reading and writing. Thus the Japanese side in a business meeting generally expects a visitor to bring an interpreter if they are serious about doing business. Although the cost for hiring an interpreter is high (\$400 to \$900 per day depending on class), bringing along an interpreter shows that a visiting firm is serious about seeking to market their products/services in Japan.

The first visit to a Japanese firm generally serves as a courtesy call to introduce American executives and their company, and also allows the U.S. side to begin to evaluate a target company and its executives as potential business partners. A request to meet only with English speaking staff can mean missing the opportunity to become acquainted with higher-ranking executives.

A written contract, even if less detailed than a contract between two U.S. companies, is essential to meet legal, tax, customs and accounting requirements. Contractual commitments are perceived as representing long-term relationships so the terms and conditions, for example whether to grant exclusive rights, should be considered carefully.

U.S. business travelers to Japan seeking appointments with U.S. Embassy Tokyo officials should contact the Commercial Section in advance. The Commercial Section can be reached by fax at 81/3/3589-4235 or by e-mail [tokyo.office.box@mail.doc.gov](mailto:tokyo.office.box@mail.doc.gov).

## **Travel Advisory**

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There are no State Department travel advisories for Japan. Japan is noted for its low crime and safe streets.

Crimes against U.S. citizens in Japan are rare and usually only involve personal disputes, theft or vandalism. Crime is at levels well below the U.S. national average. Violent crime is rare, but does exist. Incidents of pick-pocketing of foreigners in crowded shopping areas, on trains and at airports have been a sporadic concern. Some Americans believe that Japanese police procedures appear to be less sensitive and responsive to a victim's concerns than would be the case in the United States, particularly in cases involving domestic violence and sexual assault. Few victim's assistance resources or battered women's shelters exist in major urban areas, and are generally unavailable in rural areas. Investigations of sexual assault crimes are often conducted without women police officers present and typically involve inquiries into the



victim's sexual history and previous relationships. Quality of translations can vary significantly, and has proven unsettling to some American victims.

For additional information, please refer to the State Department's "Consular Information Sheet" for Japan at [http://travel.state.gov/travel/cis\\_pa\\_tw/cis/cis\\_1148.html](http://travel.state.gov/travel/cis_pa_tw/cis/cis_1148.html).

## Visa Requirements

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A valid U.S. passport is necessary to enter and travel in Japan, and by Japanese law, non-residents are required to carry their passports at all times. A visa is not required for short-term business visits (up to 90 days). It is not required to have a round-trip ticket, although it is recommended. A work or investor visa may take up to two months to obtain. Immunization and health certificates are not required. Foreigners remaining in Japan longer than 90 days must obtain an Alien Registration Card, available free of charge from the municipal office of the city or ward of residence in Japan.

Upon arrival, going through both immigration and customs checks are essentially a formality for U.S. business travelers as long as passport and air ticket are in order. Passengers should exchange some U.S. dollars for yen before leaving the airport.

U.S. Companies that require travel of foreign businesspersons to the United States should allow sufficient time for visa issuance if required. Visa applicants should go to the following links:

State Department Visa Website: <http://travel.state.gov/visa/index.html>

United States Visas.gov: <http://www.unitedstatesvisas.gov/>

The web address for the Consular Section of the U.S. Embassy in Tokyo is:

<http://tokyo.usembassy.gov/e/tvisa-main.html>

## Telecommunications

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Japan boasts one of the world's most advanced, state-of-the-art telecommunications systems. Almost all Japanese own a cell phone and use them constantly for text messaging, e-mail, and downloading information from the Internet in addition to making phone calls. Cable Internet services and dedicated Internet T-1 lines are not quite as common as they are in the United States, however. Public phones, most often card-operated, are available everywhere. To call the United States and Canada from Japan, dial 0101 before the ten-digit U.S. telephone number.

## Transportation

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Japan has excellent, modern highways and roads linking all parts of country. Traffic conditions are often very congested, however. Most major intercity highways operate on a toll basis, and tolls are very expensive, making passenger railroad service very competitive, especially for the foreign visitor. Japan boasts the world's densest and most modern passenger railroad system, with fast, frequent services to all parts of the country. Japan's famous *shinkansen* high-speed rails lines link Tokyo with Japan's major business centers at speeds of up to 185 mph. All of Japan's large cities have

highly developed subway and commuter train service. Taxi service is available everywhere.

Foreign visitors should not entertain the notion of renting a car in Japan unless they have excellent Japanese-language skills, as streets typically have no name and many road signs are written in Japanese only. Combined with very high car rental fees and highway tolls, these conditions make it far cheaper and more convenient for the majority of visitors from overseas to use taxis and trains.

## **Japanese Customs, etiquette, and Culture**

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The web sites listed below are recommended reading for business visitors to Japan, especially first-time business visitors. They present an overview of Japanese culture, customs, and etiquette. Japanese culture is very different from the American. All aspects of Japanese life, especially business relations, are governed by strict rules of etiquette. A foreign business person who is either ignorant of, or insensitive to, Japanese customs and etiquette needlessly jeopardizes his company's prospects in this country. An elementary knowledge of the language is also useful, although not required. We hope that CS clients will find the contents of these web sites useful as they prepare for a business trip to Japan or get ready to deal with visiting Japanese business people in the United States.

**japan-guide.com** a very good basic guide to Japanese culture

Japanese culture

<http://www.japanguide.com>

Japanese etiquette

<http://www.japan-guide.com/e/e622.html>

Japanese customs

<http://www.japan-guide.com/e/e638.html>

## **Japan Web Guide FAQ**

"Japanese Culture: A Primer for Newcomers"

<http://www.thejapanfaq.com/FAQ-Primer.html>

"Japanese Manners & Etiquette"

<http://www.thejapanfaq.com/FAQ-Manners.html>

## **Language**

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The national language of Japan is Japanese and is spoken and understood all over the country. English is a required subject in Japanese high schools, and it is by far the most widely known foreign language in Japan. International business correspondence and negotiations in Japan are almost always conducted in English. This being said, however, most Japanese, including business executives, have only a very imperfect understanding and command of English, although there are of course exceptions. Japanese business executives often read English much better than they can speak it or understand it when spoken. It is advisable, therefore, to be accompanied by a competent professional interpreter to all business meetings, especially an initial contact where you might be unsure of your counterparts' mastery of English.

Overseas visitors interested in the Japanese language can visit the following web sites:

"Some Notes on Japanese Grammar"

<http://www.csse.monash.edu.au/~jwb/jgrammar.html>

"Japanese for the Western Brain"

<http://www.mindspring.com/~kimall/Japanese/index.html>

Jim Breen's Japanese Page

<http://www.csse.monash.edu.au/~jwb/japanese.html>

## Health

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While medical care in Japan is good, English-speaking physicians and medical facilities that cater to Americans' expectations are expensive and not very widespread. Japan has a national health insurance system, which is only available to foreigners with long-term visas for Japan. National health insurance does not pay for medical evacuation or medical care outside of Japan. Medical caregivers in Japan require payment in full at the time of treatment or concrete proof of ability to pay before treating a foreigner who is not a member of the national health insurance plan.

For additional information, please refer to the State Department's "Consular Information Sheet" for Japan at [http://travel.state.gov/travel/cis\\_pa\\_tw/cis/cis\\_1148.html](http://travel.state.gov/travel/cis_pa_tw/cis/cis_1148.html).

## Local Time, Business Hours, and Holidays

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### Local Time

Japan is 14 hours ahead of U.S. Eastern Standard Time (EST) and 13 hours ahead of Eastern Daylight Time (EDT) from April to October. Consequently, 8:00 a.m. EST in New York City corresponds to 10:00 p.m. the same day in Tokyo. 8:00 p.m. EST in New York City corresponds to 10:00 a.m. *the next day* in Tokyo.

### Business Hours

The typical Japanese workweek is Monday through Friday, 9:00 a.m. to 5:00 p.m., although many Japanese office workers put in long hours of overtime. Flex work hours have become popular at large companies.

### Holidays

When a national holiday falls on a Sunday, the following Monday is a compensatory day. In addition, many Japanese companies and government offices traditionally close during the New Year's holiday season (December 28-January 3), "Golden Week" (April 29-May 5) and the traditional "O-Bon" Festival (usually August 12-15).

### National Holidays in 2005

In 2005, Japan will observe the following official holidays:

New Year's Day	January 1
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Adult's Day	January 10
National Foundation Day	February 11
Vernal Equinox Day	March 20
Greenery Day	April 29
Constitution Day	May 3
Legal Rest Day	May 4
Children's Day	May 5
Marine Day	July 18
Respect for the Aged Day	September 19
Autumnal Equinox Day	September 23
Health & Sports Day	October 10
Culture Day	November 3
Labor Thanksgiving Day	November 23
Emperor's Birthday	December 23

## Business Infrastructure

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Japan's business infrastructure is on a par with that of the United States. All business traveler services are available. For additional information on traveling to Japan, contact the Japan National Tourist Organization (JNTO) in New York at Phone: 212-757-5640, Fax 212-307-6754, or visit JNTO's website at <http://www.jnto.go.jp/>.

## Temporary Entry of Materials and Personal Belongings

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There is no restriction for temporary entry of laptop computers and software for personal use. Regarding materials for exhibits, Japan is a member of the International Convention to Facilitate the Importation of Commercial Samples and Advertising Materials under the ATA *carnet* System (<http://www.atacarnet.com/>). Use of a *carnet* allows goods such as commercial and exhibition samples, professional equipment, musical instruments and television cameras to be carried or sent temporarily into a foreign country without paying duties or posting bonds. These goods cannot be sold. A *carnet* should be arranged for in advance by contacting a local office of the United States Council for International Business or its helpline at 800-ATA-2900.

## Web Resources

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Doing business in Japan:

U.S. Commercial Service Japan  
<http://www.buyusa.gov/japan/en/doing.html>

Consular information & official travel advisories for Japan:

U.S. Department of State  
[http://travel.state.gov/travel/cis\\_pa\\_tw/cis/cis\\_1148.html](http://travel.state.gov/travel/cis_pa_tw/cis/cis_1148.html)

U.S. visas:

U.S. Department of State  
<http://travel.state.gov/visa/index.html>

<http://www.unitedstatesvisas.gov/>

U.S. Embassy in Tokyo Consular Section  
<http://tokyo.usembassy.gov/e/tvisa-main.html>

Japanese customs, etiquette, and culture:

<http://www.japanguide.com>  
<http://www.thejapanfaq.com/>

Japanese language:

"Some Notes on Japanese Grammar"  
<http://www.csse.monash.edu.au/~jwb/jgrammar.html>

"Japanese for the Western Brain"  
<http://www.mindspring.com/~kimall/Japanese/index.html>

Jim Breen's Japanese Page  
<http://www.csse.monash.edu.au/~jwb/japanese.html>

Business infrastructure:

Japan National Tourist Organization (JNTO)  
<http://www.jnto.go.jp/>

Health:

U.S. Department of State  
Consular Information Sheet for Japan  
[http://travel.state.gov/travel/cis\\_pa\\_tw/cis/cis\\_1148.html](http://travel.state.gov/travel/cis_pa_tw/cis/cis_1148.html)

Temporary entry of materials under the *carnet* system:

<http://www.atacarnet.com/>

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U.S. exporters seeking general export information/assistance or country-specific commercial information should consult with their nearest **Export Assistance Center** or the **U.S. Department of Commerce's Trade Information Center** at **(800) USA-TRADE**, or go to the following website: <http://www.export.gov>.

To the best of our knowledge, the information contained in this report is accurate as of the date published. However, **The Department of Commerce** does not take responsibility for actions readers may take based on the information contained herein. Readers should always conduct their own due diligence before entering into business ventures or other commercial arrangements. **The Department of Commerce** can assist companies in these endeavors.

## Chapter 9: Contacts, Market Research, and Trade Events

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- [Market Research](#)
- [Trade Events](#)

### Contacts

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#### U.S. EMBASSY TRADE PERSONNEL

##### **Commercial Service Tokyo**

Samuel Kidder, Minister-Counselor for Commercial Affairs

U.S. Embassy

1-10-5 Akasaka, Minato-ku

Tokyo 107-8420

Japan

(U.S. Address: Unit 45004, Box 204, APO AP 96337-5004)

Phone: +81/3/3224-5060

Fax: +81/3/3589-4235

<http://www.buyusa.gov/japan>

Patrick Santillo, Counselor for Commercial Affairs

Elizabeth Battaglia, Attaché, Marketing and Budget

Joel Fischl, Attaché, Consumer Goods, Services

John Fleming, Attaché, Advanced Technology

Stephen Jacques, Attaché, Major Projects, Transportation, Environment

Alain Letort, Attaché, Core Services

Mark Wildman, Attaché, Market Access and Compliance

Dale Wright, Attaché, Health Industries

American Business Information Center (ABIC)

E-mail: [tokyo.office.box@mail.doc.gov](mailto:tokyo.office.box@mail.doc.gov)

##### **Commercial Service Osaka**

Alan Long, Principal Commercial Consul

Catherine Spillman, Vice-Consul

American Consulate General

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Osaka 530-8543

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Fax: +81/6/6315-5963

E-mail: [osaka-kobe.office.box@mail.doc.gov](mailto:osaka-kobe.office.box@mail.doc.gov)

##### **Commercial Service Nagoya**

Stephen Anderson, Principal Commercial Consul

American Consulate

Nagoya International Center Building, 6F

47-1 Nagono 1-chome, Nakamura-ku



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(U.S. Address: Unit 45004, Box 280, APO AP 96337-5004)  
Phone: +81/52/581-8684  
Fax: +81/52/581-3190  
E-mail: [nagoya.office.box@mail.doc.gov](mailto:nagoya.office.box@mail.doc.gov)

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Misa Shimizu, Commercial Specialist  
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Akinori Hayashi, Commercial Specialist  
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**Foreign Agricultural Service**

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Phone: +81/3/3224-5105  
Fax: +81/3/3589-0793  
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**Agricultural Trade Office (Tokyo)**

2/8/2005

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Phone: +81/3/3505-6050  
Fax: +81/3/3582-6429  
<http://www.atojapan.org/>  
E-mail: [atotokyo@usda.gov](mailto:atotokyo@usda.gov)

**Agricultural Trade Office (Osaka)**

Emiko Purdy, Director  
American Consulate General  
2-11-5 Nishitenma, Kita-ku  
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<http://www.atojapan.org/>  
E-mail: [atoosaka@usda.gov](mailto:atoosaka@usda.gov)

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Fax: +81/3/3224-5010

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**CHAMBERS OF COMMERCE/TRADE ASSOCIATIONS**

**American Chamber of Commerce in Japan (ACCJ)**

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Fax: +81/3/3433-8454  
<http://www.accj.or.jp/>

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Osaka 540-0029  
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Fax: +81/6/6944-5992  
<http://www.accj.or.jp/>

**American Chamber of Commerce in Japan (ACCJ) Chubu Chapter**

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2/8/2005

[http://www.jftc.or.jp/english/home\\_e.htm](http://www.jftc.or.jp/english/home_e.htm)

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<http://www.kyukeiren.or.jp/english/index.html>

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<http://www.fukuoka-fta.or.jp/>

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**Japan Chain Stores Association**

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Phone: +81/3/5251-4600

Fax: +81/3/5251-4601

**Japan Confectionery Association**

JB Bldg. 7F

2/8/2005

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Tokyo 105-0004  
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**Japan Dairy Industry Association**

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**Japan Fruit Juice Association**

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<http://www.jna-nut.com/index.htm>

**Japan Self-Service Association, Inc.**

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<http://www.jri.co.jp/contents/english/index.html>

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2/8/2005

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Email: [tic@ita.doc.gov](mailto:tic@ita.doc.gov)

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<http://www.state.gov/business>

**Export-Import Bank of the United States (Ex-Im Bank)**

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Washington, DC 20571

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(800) 565-3946 (EXIM)

E-mail: [info@exim.gov](mailto:info@exim.gov)

<http://www.exim.gov/>

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Fax: 202-408-9859

E-mail: [info@opic.gov](mailto:info@opic.gov)

<http://www.opic.gov/>

**Foreign Commercial Service, U.S. Dept. of Commerce**

To view market research reports produced by the U.S. Commercial Service, please visit <http://www.export.gov/marketresearch.html> and click on Country and Industry Market Reports.

**Foreign Agricultural Service, U.S. Dept. of Agriculture**

Each year, the Foreign Agricultural Service offices in Tokyo and Osaka prepare more than 100 reports on food market developments in Japan. These include sector studies, product-specific market briefs and reports on market-opening and other trade policy developments. All reports are available on-line by accessing the Foreign Agricultural Service web site at:

<http://fas.usda.gov>.

Please note that these reports are only available to U.S. citizens and U.S. companies. Registration to these sites is required, but free of charge.

**Trade Events**[Return to top](#)

Please click on the links below for more information regarding upcoming trade events.

<http://www.export.gov/tradeevents.html>

<http://www.buyusa.gov/japan/en/event.html>

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U.S. exporters seeking general export information/assistance or country-specific commercial information should consult with their nearest **Export Assistance Center** or the **U.S. Department of Commerce's Trade Information Center** at **(800) USA-TRADE**, or go to the following website: <http://www.export.gov>.

To the best of our knowledge, the information contained in this report is accurate as of the date published. However, **The Department of Commerce** does not take responsibility for actions readers may take based on the information contained herein. Readers should always conduct their own due diligence before entering into business ventures or other commercial arrangements. **The Department of Commerce** can assist companies in these endeavors.

## Chapter 10: Guide to Our Services

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The U.S. Commercial Service offers customized solutions to help your business enter and succeed in markets worldwide. Our global network of trade specialists will work one-on-one with you through every step of the exporting process, helping you to:

- Target the best markets with our world-class research
- Promote your products and services to qualified buyers
- Meet the best distributors and agents for your products and services
- Overcome potential challenges or trade barriers

For more information on the services that the U.S. Commercial Service in Japan offers U.S. businesses, please click on <http://www.buyusa.gov/japan/en/partner.html>.

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